Vol. 9

THE HISTORY OF BANKING IN CANADA. By R. M. Breckenridge. (*310 pages.*) Senate Document 332. Price, 30 cents.

This volume, replete with facts and statistics showing the growth and present condition of the Canadian banks, is a continuation of Mr. Breckenridge's earlier volume published some twenty years ago. The author traces the development of banking in Canada from the earliest efforts to introduce the practice into the British North American Provinces in the eighteenth century to the most recent banking legislation of 1908. The monograph gains importance from the fact that the Canadian banking system, with its highly developed organization of branch banking, its large freedom of note issue, and its circulation-redemption fund has for many years attracted attention in this country.

THE CANADIAN BANKING SYSTEM. By Dr. Joseph French Johnson, of New York University. (*191 pages.*) Senate Document 583. Price, 30 cents.

In this study, based upon personal investigations made by the author in Canada, Professor Johnson gives an account of the present banking practices of the Dominion. Attention is also given to Canada's economic development, which, the author believes, has been promoted in no small degree by the excellence of her banking system. Special attention is given to Canada's bank-note issue, which, unprotected by the deposit of securities, has, in Professor Johnson's opinion, proved entirely safe and has given Canadian currency that elasticity which is so much to be desired. He ascribes the strength of Canadian banking to this elastic quality of her note circulation and to the solidarity or unity of her system.

INTERVIEWS ON THE BANKING AND CURRENCY SYSTEMS OF CANADA. (*219 pages.*) Senate Document 584. Price, 25 cents.

This volume preserves in the form of question and answer the result of interviews held by a subcommittee of the National Monetary Commission with leading Canadian bankers. The investigation brings out many facts as to the actual working of the Canadian banking system, particularly with regard to the subject of note issue. Questions relating to the currency of the Dominion have been answered by the office of the Canadian Minister of Finance.

PUBLICATIONS OF
NATIONAL MONETARY COMMISSION

VOL. IX

BANKING IN CANADA

INCLUDING

The History of Banking in Canada
By R. M. BRECKENRIDGE

The Canadian Banking System
By JOSEPH FRENCH JOHNSON

Interviews on the Banking and Currency Systems of Canada

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THE Canadian Banking System

By

JOSEPH FRENCH JOHNSON

Dean of New York University School of Commerce, Accounts, and Finance

Washington : Government Printing Office : 1910

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PREFATORY NOTE.

The author spent a few weeks in Canada during the spring of 1909 and is certain that he sorely taxed the patience of bankers and business men with his questions. But they did not let him know it, and he now wishes to thank them all for their uniform courtesy, and to say to his own countrymen that Canadian hospitality is of the warm, old-fashioned, dependable kind. He is under greatest obligation to Hon. T. C. Boville, deputy minister of finance; Mr. John T. P. Knight, of Montreal, secretary-treasurer of the Canadian Bankers' Association; Prof. James Mavor, of the University of Toronto; and Mr. Fred W. Field, editor of the Monetary Times. Readers interested in the development of the Canadian banking system should read, in connection with this volume, Dr. R. M. Breckenridge's "The History of Banking in Canada," which is also published by the National Monetary Commission.

THE AUTHOR.

APRIL 18, 1910.

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THE CANADIAN BANKING SYSTEM.

CHAPTER I.

INTRODUCTION.

Financially Canada is part of the United States. Fully half the gold reserve upon which its credit system is based is lodged in the vaults of the New York Clearing House. In any emergency requiring additional capital Montreal, Toronto, and Winnipeg call on New York for funds just as do St. Paul, Kansas City, and New Orleans. New York exchange is a current and universal medium in Canada and is in constant demand among the banks. A Canadian wishing to invest in securities that may be quickly marketed commonly turns to the New York market for stocks and bonds. Yet the American banker visiting in Canada, if he is unacquainted with the history of banking in his own country, finds himself in a land of financial novelties, for Canada has a banking system unlike any in operation in the United States at the present time. Twenty-nine banks, known as the "chartered banks," transact all the banking business of the Dominion. They have 2,200 branches, and each may establish new branches without increase of its capital stock. They issue notes without depositing security with the government

and in such abundance that no other form of currency in denominations of $5 and above is in circulation. Notwithstanding the fact that the notes are "unsecured," their "goodness" is unquestioned among the Canadian people.

THE SYSTEM NOT NEW.

But to the student of the history of banking in the United States there is little that is radically new in the Canadian system. He finds in it many of the practices and expedients that were found excellent in the United States in the first half of the nineteenth century, and is almost persuaded that but for the civil war what is now known as the Canadian banking system would everywhere be called the American system.

The fiscal exigencies of war, which have caused changes in the banking systems of most countries, have had no influence upon the development of banking in Canada. During the first half of the nineteenth century the commercial and financial interests of Canada and the United States were comparatively intimate and the financial institutions of both countries developed on similar lines. The safety-fund system, first introduced in the State of New York in 1829, found favor also in Canada and is still an integral part of the Canadian banking system. Branch banking, which was most successfully illustrated in this country by the Bank of Indiana, and which now exists in some form or other in almost all countries except the United States, has always prevailed in Canada. The importance of a prompt redemption of bank notes as exemplified in the old Suffolk banking system in New England

before the war, was fully realized in Canada and is probably better illustrated in the present Canadian system than in any other country. There bank notes and bank checks are treated as identical in nature, both being cleared with the same regularity and promptness. The so-called free banking system, which was first adopted in the State of New York in 1839 and thereafter adopted by 18 other States of the Union, was tried in Canada in the fifties, but not on a large scale. This system, requiring that issues of bank notes should be secured by a segregated deposit of certain classes of stocks and bonds, has never met with approval among the leading bankers of Canada.

The Canadian system is a product of evolution. It has taken its present form because of the commercial and financial needs of the Canadian people. It was not created by lawyers or statesmen to meet a fiscal need of the government, but has grown up gradually under the fostering care of experienced bankers, no changes having been made until experience proved them necessary or advisable. The business interests of the Dominion, through their representatives in the provincial legislatures and in the Dominion Parliament, have had much to do with its development in a natural effort to protect the rights of the borrower, the depositor, and the note holder. The banks do not possess all the privileges many of the bankers would like to have, nor do the business men of Canada believe in the real necessity for all the protection given to the banks by the law, yet in the main the system is satisfactory both to bankers and to their customers.

The chartered banks transact the business which in the United States is divided among national banks, trust companies, private banks, and savings banks. They buy and sell commercial paper, discount the notes of their customers, lend money on stocks and bonds, make advances to farmers, and sometimes aid in the financing of railroads and industrial enterprises. To a Canadian the word "bank" means one of the twenty-nine "chartered banks," for the law prohibits the use of the word "bank" by any other institution.

OTHER FINANCIAL INSTITUTIONS.

The only other financial institutions in Canada which possess much importance are the mortgage and loan companies. These usually operate under charters granted by the provincial legislatures and do a business similar to that of the farm and mortgage companies which once flourished in the United States, making loans to farmers for a term of years and taking farm mortgage for security. They also make loans upon urban and suburban real estate and thus aid in the upbuilding of the cities and their suburbs. The business of these institutions is made possible by the fact that the bank act does not permit the chartered banks to accept loans secured by real estate.

The Dominion government maintains a double system of savings banks. One set is managed by the post-office department, every post-office receiving deposits. The other set is managed by the finance department. The post-office department also sells annuities and old-age pensions. The money received through the savings banks is regarded as a loan from the people and is used,

like money obtained by taxation, in the payment of the government's general expenses. The government is required to carry a gold reserve of 10 per cent against the savings deposits, but no assets are set aside for their security. The chartered banks pay the same rate of interest and get most of the business, for they offer facilities with which the government does not attempt to compete.[a] Most of the government's deposits come from the poorest and most ignorant classes, people who in all countries are suspicious of banks. In 1909 the deposits amounted to about $60,000,000, of which fully 80 per cent came through the post-offices. In the same year the time or savings deposits of the chartered banks amounted to about $350,000,000. Some of the Canadian cities maintain municipal savings banks, but they are of relatively small importance.

Trust companies in Canada are not financial institutions. They are trust companies in fact as well as in name, their business being to act as trustee and administrator. A few of them accept deposits, although it is not certain that they have a right to do so. The bulk of the money they handle comes to them through the administration of estates and trust funds.

Private banking firms are almost unknown in Canada, there being only two or three in the entire Dominion, and

[a] The attitude of the bankers toward the government savings banks is shown by the following remarks of a Montreal banker: "The government savings bank deposits are in the aggregate too small to have made any inroads upon our business. The disadvantages to the depositor are so many more than with the savings accounts of the banks that people prefer the banks. We do not worry over the competition that they offer. The accounts that the government gets we are about as well off without."

these do a mortgage and loan business rather than a strictly commercial banking business.

Hence, if anyone seeks to understand the financial or banking situation in Canada, he must devote his attention in the main to the chartered banks. These through their branches furnish the loanable capital necessary for the support of the Dominion's trade and industry and for much of its agricultural enterprise. To them the government turns when funds are needed for internal improvements or when the exchequer faces a deficit. The promoters of street railways, steam railways, steam railroads, and other permanent improvements take counsel with the managers of these chartered banks before they issue their securities. The banks as a rule do not invest their funds in the stocks or bonds of new enterprises, yet their managers are the men most familiar with the world's money markets and their approval, therefore, of any financial undertaking is highly esteemed.

MONETARY SYSTEM.

Canada's monetary system is substantially the same as that of the United States. The unit is the dollar of 23.22 grains of pure gold. The gold coins of the United States are legal tender in Canada. So is the British sovereign, which is rated at $\$4.86\frac{2}{3}$. Until recently all Canadian coins were minted in either England or the United States, but in 1908 a branch of the British mint was established in Ottawa.

The paper currency of Canada consists of Dominion notes and bank notes. The former are issued by the government under authority of the "Dominion notes act,"

which permits an unlimited issue, requiring security as follows: That for $30,000,000 of the notes outstanding the minister of finance shall hold in gold and government securities a reserve equal to 25 per cent of the issue, the amount held in gold to be not less than 15 per cent of the amount of notes outstanding; and that against all notes issued in excess of $30,000,000 the minister shall hold an equal amount of gold. The framers of the act evidently had in mind the limitation placed upon the Bank of England's issue of notes by the Peel act of 1844. The Dominion notes, accordingly, are gold certificates rather than credit notes. The minister of finance is required to redeem the notes in gold at branches of his department in several different cities. If need be, the minister may sell bonds to obtain gold for use in the redemption of the notes.

Dominion notes are legal tender and may be issued in any denominations, but experience has proved that they are most needed in bills of large denominations for use in banking reserves and in the form of $1 and $2 bills, the banks not being permitted to issue notes under $5. The average circulation of Dominion notes in 1908 amounted to $68,602,944, of which amount $52,882,708 was in $500, $1,000, and $5,000 bills, and $14,910,365 in $1 and $2 bills. There has been a pretty constant increase in the amount of Dominion notes outstanding. In 1900 the total was only $26,550,465. The bills of large denominations are practically all carried by the banks in their reserves.

Canadian banks are not permitted to issue notes of a denomination less than $5. Of fives and multiples thereof

they may issue an amount equal to their paid-up capital without deposit of security and without payment of tax. As a result the currency in the hands of the people consists almost exclusively of bank notes. The amount in circulation increased from $50,000,000 in 1900 to $81,400,000 in 1909.

RESOURCES AND INDUSTRIES.

The Dominion of Canada contains more territory than the United States with Alaska included. Its area is 3,745,000 square miles, of which about 70,000,000 acres are occupied. Much of the territory lying in the unknown North will probably remain long unoccupied and unexplored. Yet the Dominion contains idle land and unutilized resources sufficient to maintain a population many times larger than it now possesses. The minister of finance in his budget speech in April, 1909, estimated the population of Canada at 7,500,000 people. It would be hard to find a Canadian who does not believe that this country is destined soon to have 100,000,000 people enjoying all the comforts and luxuries of modern civilization, and it is partly because of this confident belief that the Canadian public has lost interest in the question of annexation to the United States.

The leading industries of Canada are agriculture, lumbering, mining, and fisheries. Western Canada has a soil and climate well suited to the culture of wheat and good for the raising of cattle and horses. Dairying is an important industry in Ontario and all the provinces to the eastward. In 1908 Canada produced 115,000,000 bushels of wheat, 267,000,000 bushels of oats, 50,000,000 bushels of

barley, 21,000,000 bushels of corn, and 73,000,000 bushels of potatoes. The Province of Manitoba produced nearly one-half of the wheat crop and Saskatchewan one-third of it.

The foreign trade of Canada has more than doubled in the last ten years. In 1898 the total of imports and exports amounted to $304,000,000, the imports having been $140,000,000 and the exports $164,000,000. In 1908 the total was $651,000,000, the imports having been $371,000,000, and the exports $280,000,000. Since 1902 the imports have uniformly been larger than the exports, the excess of imports doubtless representing in some measure the investments of foreign capital.

Chapter II.

ESSENTIALS OF THE CANADIAN BANKING SYSTEM.

A chartered bank in Canada is a bank of branches, not a bank with branches. The parent bank, technically known as the "head office," neither takes deposits nor lends money. All the banking business is done by the branches, each enjoying considerable independence, but all subject to the supervision and control of the head office. The law places no restrictions upon the number or location of branches. Canadian banks, therefore, have branches in foreign countries as well as in Canada.

The general bank act, under the terms of which every bank obtains and holds its charter, is subject to revision every ten years. In its present form it is substantially as passed in 1890. A few unimportant changes were made in 1900, and among both bankers and politicians there is some talk to-day about the modifications of the act that will be proposed in 1910. The bankers themselves would be well satisfied if the present law were reenacted without amendment.

PROCESS OF INCORPORATION.

The provisions of the bank act with respect to the organization of new banks are intended to guard against the entry of unfit or inexperienced persons into the banking business. The minimum required capital of a bank is $500,000, of which all must be subscribed and one-half paid in before a new bank can open. At least five men of integrity and good financial standing must agree to act as

provisional directors and secure a favorable report on their project from the parliamentary committee on banking and commerce. These men must agree to subscribe for fairly large blocks of stock, otherwise the committee will be inclined to reject their application. They must convince the committee that their project is a well-considered one, that there is need for the new bank, that it is a bona fide enterprise, that they have in mind a competent man for general manager, that they really intend and expect to do a legitimate banking business. If they satisfy the parliamentary committee it will be granted. The bank, however, can not yet begin business. Provisional directors now have merely the right to advertise and cause stock books to be opened. If inside of one year capital stock to the amount of $500,000 has been subscribed and $250,000 thereof paid in, the provisional directors may call a meeting of the shareholders, at which a board of regular directors shall be chosen. Before this meeting is held at least $250,000 in cash must be paid over to the minister of finance. The regular directors must then apply to a body known as the treasury board [a] for a certificate permitting the bank to issue notes [b] and begin business and

[a] The treasury board consists of the minister of finance and five ministers nominated from time to time by the governor in council. The minister of finance is chairman of the board and the deputy minister of finance ex officio the secretary.

[b] The designing and engraving of the notes is left with the bank itself. Many of the banks have had their notes made in the United States, but a bank-note company has been established in Canada and is getting a larger proportion of this business every year. The notes must bear the signatures of two officers of the bank. The authority to sign, however, may be delegated to subordinates. When notes are shipped by the head office to a branch they are usually sent with only one signature, the other being supplied by one of the branch offices. If the notes should be lost or stolen en route they are worthless.

the treasury board may refuse this certificate unless it is entirely satisfied that all the requirements of the law have been met. Delay on the part of the treasury board might prove fatal to the new enterprise, for if a new bank does not obtain a certificate within one year from the date of its incorporation, all the rights, powers, and privileges conferred by the act of incorporation cease.

These requirements make it impossible to organize a new bank in Canada with any degree of secrecy. When application is made for a new charter the fact is known to every banker in the Dominion. The secretary of the Canadian Bankers' Association, although not required to do so by law, would undoubtedly get together at once all possible information with regard to the proposed incorporators and the board of provisional directors.

Having obtained its charter, a new bank must open its head office in the place designated, and may then proceed to establish branches or agencies, upon the number and location of which the law places no restriction. Under its charter it has authority to do a general banking business; it may discount commercial paper, lend money on collateral security, accept deposits payable on demand or after notice, and issue circulating notes up to the amount of its unimpaired paid-up capital in denominations of $5 and multiples thereof. An amendment of the bank act passed July 20, 1908, gives the bank the right to issue what may be called an emergency circulation during the crop-moving season (October 1 to January 31). During this period the legal maximum of the circulation of a bank is its paid-up capital plus 15 per cent of its combined paid-up capital and surplus or rest fund. This emergency circulation,

which consists of notes in form and in other respects exactly like the regular issues, is subject to a tax at a rate not to exceed 5 per cent per annum, the rate being fixed by the governor in council. If a bank's circulation does not exceed its paid-up capital, it pays no tax.

SECURITY AND REDEMPTION OF NOTES.

The law is silent on several subjects that seem of great importance to most bankers in the United States. For instance, it does not require that the banks shall deposit with a government official, or in any way set aside any kind of security for the protection of the note holder. It does not even require that the banks shall carry a cash reserve against either notes or deposits, nor does the law make the notes a legal tender for any payment. A bank need not accept the notes of other banks. The government does not guarantee the redemption of the notes. Neither does it bind itself to receive them in payment of dues to itself.

Nevertheless the notes of the Canadian banks are everywhere acceptable at par, the people apparently not being at all concerned about their "goodness." And their confidence in the note has been well justified, for nobody since 1890 has lost a dollar through the failure of a bank to redeem its notes. Following are the legal requirements, which for twenty years have proved adequate protection for the note holder:

1. Every bank must redeem its notes at its head office and in such commercial centers as are designated by the treasury board. The redemption cities are the same for all the banks. They are Toronto, Montreal, Halifax, Winnipeg, Victoria, St. John, and Charlottetown.

2. Each bank must keep on deposit with the minister of finance a sum of lawful money (gold or Dominion notes) equal to 5 per cent of its average circulation; the total so deposited is called the "circulation redemption fund." It is a guaranty or insurance fund for use, if need be, in the redemption of the notes of failed banks.

3. Bank notes possess first lien upon the assets of a bank.

4. Bank stockholders are liable to an assessment equal to the par value of their stock.

5. A bank must make to the minister of finance on or before the fifteenth of each month a detailed statement of its assets and liabilities on the last business day of the preceding month. This monthly return, the form for which is set forth in the act, must be signed by three general officers.

6. The Canadian Bankers' Association, an incorporated body of which each bank is a member, is given supervision by the bank act of the issue and cancellation of notes and of the affairs of a failed bank.

7. The notes of a failed bank draw interest at 5 per cent from the date fixed for their redemption by the minister of finance, who may redeem them out of the assets of the bank or out of the "circulation redemption fund."

IMPORTANCE OF REDEMPTION.

Each of these provisions of the law has its value and significance, but only the first is absolutely essential to the successful operation of the system. All the other provisions might be changed or abolished without impairment of the efficiency of the banking system. But the abolishment of this redemption system would at once give Canada

a new banking system. The bank note is almost the sole circulating medium in Canada, and the people have confidence in it because it is tested every day at the clearing houses and proves itself as good as gold. This daily test would probably not take place with the same regularity as now if the banks did not have branches or if they were obliged to deposit security against their issues. Canadian banks are national, not local institutions. All but a few of them have branches in every part of the Dominion, and these branches, as fast as they receive the notes of other banks, either send them in to the nearest redemption center or convert them into lawful money—or its equivalent, a bill of exchange—through branches of the issuing banks located in the same towns. The 29 chartered banks have 2,200 branches and each bank is seeking, through its branches, to satisfy all the legitimate needs of the people for a circulating medium. When the note of a bank is in circulation it is earning money for the bank, but when it is in the vault or on the counter of the bank it is an idle and useless piece of paper. Hence every bank always pays out its own notes through its branches and sends the notes of other banks in for redemption, thus increasing its own circulation and strengthening its own reserve.

Furthermore, if the banks were not allowed complete freedom of issue within the prescribed limit, but were required to deposit some form of security, as is required of the national banks in the United States, an investment or speculative risk would arise that would inevitably cause friction. If bonds were designated as security, bankers might often be tempted by high prices to sell their bonds and forego the profit on circulation for the

sake of making a larger profit by the sale of the security. Thus the volume of bank notes might contract even at a time when the people needed more currency. In such case, of course, Canada would be obliged to import gold in order to fill the gap in the circulating medium.

THE CIRCULATION REDEMPTION FUND.

The 5 per cent insurance fund for the redemption of the notes of failed banks is theoretically an important and prominent part of the system, yet practically it would seem to be of little consequence, for not once since 1890 has it been necessary to use a dollar of the fund. Banks have failed, to be sure, but the notes of these banks have always been redeemed either out of the assets or by recourse to the double liability of the shareholders. It is a mistake to suppose that the people of Canada have confidence in bank notes because of the existence of this redemption fund. The average business man knows nothing about the fund and if his attention were called to it as being a source of security for the bank notes he would probably think a 5 per cent reserve altogether too small. The real reason why the people have faith in bank notes is because the notes are always honored by the banks and never fail to stand the test of the clearing house. In other words, they believe that bank notes are good for about the same reason that they believe the sun will rise in the east every twenty-four hours and do not bother themselves about reasons.

Nevertheless this redemption fund does contribute to the strength of the banking system. It makes each bank to a certain extent liable for the mistakes of other banks,

and as a result gives rise to a spirit of mutual watchfulness and helpfulness. Other features of the system contribute to the same result, especially the fact that a Canadian bank accepts from a depositor without indorsement the notes of other banks. Since the banks have branches in agricultural and mining communities, often distant from the railroad by several days' journey, and these branches are accepting the notes of other banks and giving credit for them as if they were gold itself, it is evidently important that each banker should have all possible information with regard to the status and business of his competitors. As a result one finds among the bankers of Canada a surprisingly intimate knowledge of each other's affairs.

TWO NEGATIVE QUALITIES.

The two negative qualities of the Canadian bank note—its lack of a legal-tender quality and of a government guaranty—at first sight may seem to readers in the United States a source of weakness. Yet Canadian bankers would doubtless all agree that nothing would be gained by making bank notes legal tender for any kind of payment or by making the government in any measure liable for their ultimate redemption. Such measures would probably be rejected as likely to prove harmful. It would be like hampering a flying machine with unnecessary bars of steel. Bank notes, like bank checks, are mere promises to pay money and are more convenient than money because they can be created as need for a medium of exchange arises. When either has done the work that called it into existence, it should disappear from circula-

tion and be redeemed. If it is made a legal tender like money itself, or if its redemption is guaranteed by a strong government, there is always the danger that ignorant classes of people will regard it as money itself and withdraw it from circulation.

The Canadian government has nothing to do with the daily redemption of bank notes and does not guarantee that they shall be redeemed. It is custodian of the 5 per cent redemption fund and is under obligation to redeem the notes of failed banks out of this fund, but if a series of bank failures should exhaust it the note holder has no guaranty that government funds will be used for his relief.[a]

The possession by the note holder of a first lien upon the assets of a bank, including the funds that may be collected from shareholders on account of their double liability, gives rise to such general confidence in the ultimate convertibility of a bank note that the notes of a failed bank, on account of the interest they bear, sometimes command a premium. As a rule, the notes of such a bank are collected by the other banks and held until the date of redemption has been named by the minister of finance.

MANAGEMENT OF FAILED BANKS.

If a Canadian bank fails to meet any of its liabilities as they accrue, it forfeits at once its right of independent management and is taken charge of by a "curator" appointed by the Canadian Bankers' Association. His powers and duties are defined thus in the law:

[a] Bank act, section 65: (6) Nothing herein contained shall be construed to impose any liability upon the government of Canada, or upon the minister, beyond the amount available from time to time out of the circulation fund.

"The curator shall assume supervision of the affairs of the bank, and all necessary arrangements for the payment of notes of the bank issued for circulation then outstanding and in circulation shall be made under his supervision; and generally he shall have all powers and shall take all steps and do all things necessary or expedient to protect the rights and interests of the creditors and shareholders of the bank, and to conserve and insure the proper disposition according to law of the assets of the bank, and for the purpose aforesaid he shall have full and free access to all books, accounts, documents, and papers of the bank; and the curator shall continue to supervise the affairs of the bank until he is removed from office, or until the bank resumes business, or until a liquidator is duly appointed to wind up the business of the bank."

If the curator within ninety days is able to restore the solvency of the bank so that it is able to resume payments, it may resume business; otherwise the bank may be "wound up" and its charter revoked. During the first three months of a bank's suspension the stockholders have a chance to raise funds and restore the bank to solvency. If they fail, the curator then gives place to an official called a liquidator, who is appointed by the courts. Under a curator the stockholders still have hope and opportunity; under the liquidator the creditors of the bank are in the saddle.

The liquidator must first of all attend to the notes in circulation, their lien upon the assets being prior to all others. Inasmuch as the notes bear interest at 5 per cent from the date of suspension, the other banks are perfectly willing to hold them in their vaults until such a date as the liquidator names for their final redemption, all feeling cer-

tain that the notes will sooner or later be paid, for if the assets of the failed bank should prove inadequate, the mutual guaranty fund in the possession of the government will be drawn upon.

Next to the notes the deposits of the Dominion government have a prior lien, and then the deposits of provincial governments. If the assets of the bank are not sufficient to satisfy all the claims, the stockholders are liable to an assessment equal in amount to the amount of capital stock to which they subscribed plus any portion thereof which has not been paid up.[a] Thus if a stockholder has subscribed for 50 shares of stock, par value $100, and has paid in only $2,500, he is liable to an assessment of $7,500, of which $2,500 is on account of the unpaid subscription and $5,000 is on account of the double liability.[b]

MONTHLY RETURNS TO THE GOVERNMENT.

The law provides for no publicity with regard to bank affairs beyond the returns to the minister of finance. The items called for in the monthly report are shown in the statements for February and November, 1909, printed in chapter VI, pages 75 and 76. The minister of finance may call for supplementary information or "special returns from any bank whenever in his judgment they are necessary to afford a full and complete knowledge of its condi-

[a] Section 89 of the bank act: "In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency to an amount equal to the par value of the shares held by him in addition to any amount not paid up on such shares."

[b] As a matter of fact in the case of most Canadian banks the paid-up capital stock is equal to the capital subscribed. For instance, the returns to the government for February, 1909, give the following totals: Capital subscribed, $98,294,381; capital paid up, $96,160,555.

tion." The law, however, gives him no right of examination, and the government maintains no inspecting force.

In addition to the monthly returns, each must make report once a year as to its dividends, drafts, and bills of exchange that have remained unpaid for five years, and the names and residences of its shareholders. This information, as well as the monthly returns, is given to Parliament and the public.

CANADIAN BANKERS' ASSOCIATION.

The Canadian Bankers' Association is an incorporated body with powers and duties prescribed in an amendment to the bank act passed in 1900. Each chartered bank is represented in the membership and has one vote. The association is required by law to supervise the issue of bank notes and to report to the government all over-issues, to look after the destruction of worn and mutilated notes, and to take charge of suspended banks. Its headquarters are in Montreal in the Bank of Montreal building, and its active executive officer is the secretary-treasurer. The expenses of the association are apportioned among the banks and do not apparently constitute a very heavy burden, for the secretary has an exceedingly small staff. All expenses incurred by the association on account of a suspended bank are, of course, a charge against the assets of the bank.

When the notes of a bank are so worn or mutilated that it wishes to replace them with new notes, notice is sent to the secretary of the association, a date is fixed, and in the presence of the secretary the old notes are duly

counted and taken to a furnace,[a] where they are consumed in the presence of the secretary and other witnesses. After this solemn operation has been performed and the signatures of all parties observing it have been duly attested, new notes are issued by the association to replace those that have been destroyed.

The clearing houses in the Dominion are subject to regulation by the association. It also has the power to establish subsections and to do educational work by providing for lectures, competitive papers, examinations, etc. The Journal of the Canadian Bankers' Association, a monthly publication of excellent quality, is edited by the secretary and is at present the only educational force at work among bank employees.

[a] Each bank maintains one such furnace for this purpose. A wire netting over the chimney prevents the draft from carrying any portions of the consumed notes into the air.

Chapter III.

THE MANAGEMENT.

The keynote of the organization of a Canadian bank is the centralization of responsibility. One man, the general manager, is supreme. Above him in authority under the law are the directors, representing the stockholders. Below him is an army of employees, of whom all but two or three owe their positions entirely to his favor.

The general managers of Canadian banks are, without exception, men who have been in the banking business since boyhood. They have worked their way up through all the grades of employment by the force of brains, industry, character, and good health. They know from experience the task of every employee and they know when it is well done. They hold their positions because they have proved their fitness. They are, in other words, professional bankers. Untrained outsiders can not break into the banking business as they do in the United States.

The president of a Canadian bank is merely the chairman of the board of directors. This body holds meetings at least once a week. At these meetings the general manager reports on the business of the week and presents such applications for new credit as seem to require the approval of the board. As a rule, the general manager gives to the directors, either orally or in typewritten form, full information with regard to all the operations of the bank. His recommendations as to the granting of credits

are usually approved without much discussion, yet in Canada it is expected of every bank director that he shall give close and personal attention to the bank's operations as reported by the general manager and promptly raise objection whenever in his judgment a mistake is being made. All extensions of credit are reported by the general manager and must be formally approved by the board. Members of the board can not personally investigate individual cases, and are therefore obliged to place great reliance upon the judgment of the general manager. Nevertheless it is expected of each director that he shall always be well informed as to the important operations of the bank, as to its general policy, as to the amount of its cash reserve, the nature of its investments, etc.

The directors are not forced to rely entirely on the general manager. An officer called the "chief accountant" is expected to know quite as much about the bank's affairs as the general manager himself, and is often present at the board meetings. If the general manager misrepresents any transaction, or fails to reveal to the board the true condition of the bank, the accountant is expected to correct him. In some of the larger banks the board of directors has deemed it wise to place in the head office still another man to represent them, having full power to acquaint himself with the details of all transactions. This man is usually given some routine duties to perform, yet his prime function in the head office is as a representative of the board of directors. The appointment of such a man does not imply any lack of confidence in the general manager, but is justified rather by the belief that the general

manager, with two good advisers, will be less liable to an aberration of judgment than if he has only one.

The other general or "chief" officers, with headquarters in the "head office," are the superintendent of branches, the inspector, and the secretary. The superintendent is the general manager's right-hand man and is usually in very close touch with his chief and in sympathy with his general policy. The superintendents of the larger banks have the assistance of deputy and department superintendents.

The inspector is at the head of the bank's system of examination. He and his assistants visit the branches at irregular intervals, counting the cash and examining the discounts and other assets. As a rule they are keen to find something to condemn or criticise, and branch managers and their subordinates seem to regard them with considerable fear and respect. Canadian banks are not subject to government inspection, and bankers maintain that no inspection by an outsider could be as thorough or salutary as that which results from the present system. The expenses of the inspecting staff of some of the larger banks amount to $80,000 a year.

Theoretically the board of directors is superior to the general manager and can bring him to a halt if he enters upon any policy of which they disapprove. In practice, however, the general manager of a Canadian bank knows so much more about the banking business than any one or all of the directors combined that if a conflict of opinion does arise between the board and himself, the chances are that he will dominate. Yet in most of the banks it would be very difficult for the general manager from improper

motives to hold long to a detrimental policy. Even though the accountant did not report against him, the directors, the moment their suspicions were aroused, would call into consultation the managers of some of the larger branches and other experienced officers in whose judgment they had confidence. The entire system of managment is so correlated that it is practically impossible for one man to be the bank. Some of the smaller institutions are doubtless dominated by single individuals, but as a rule a Canadian bank has connected with it in responsible positions, all having access to the board of directors, so many men of long experience in the banking business that no one man, however high his position, can use the institution to gratify personal ambition or cupidity.

MANAGEMENT OF BRANCHES.

The responsible head of a branch is called the manager. He is selected by the general manager and must conduct his branch in harmony with the views of his chief. His duties are analogous to those of a bank president in the United States. His chief assistant, called the accountant, has charge of all the details, and in the manager's absence is the ranking officer in the branch. He is responsible to the manager and is expected to keep fully informed as to the manager's policy in all its details and to be familiar with all correspondence that passes between the manager and the general manager. He is, in fact, the manager's understudy. In the United States the duties of the so-called Canadian bank accountant are assumed in the smaller banks by the cashier, and in the larger banks are divided between the vice-president and the cashier.

A large branch is in daily communication either by wire or letter with the general manager. The head office allots to each a certain quantity of the bank's notes, a certain amount of "legals," as the Dominion notes are called, and a certain credit balance in New York and London and other foreign cities. A limit is also placed upon the amount which a branch may loan without consultation with the head office. This limit, of course, varies with the different branches, according to the magnitude of their business.[a] In some respects each branch is treated as an independent institution. For example, a man having an account in one branch of an institution can not draw checks on another branch. His checks upon the branch with which he has an account, if presented at the counters of other branches of the same bank, will be treated as if they were checks upon some other institution, exchange being charged. A customer, however, can easily arrange to have his account transferred from one branch to another of the same bank.

[a] "Our branch managers," said a Montreal banker, "have the authority to make loans up to a certain size on their own responsibility. Then each Province has its own supervisor or inspector. In case there is an application for a loan too large for the branch manager to pass on, he makes his recommendation and sends it on to his district supervisor. Up to a certain figure these supervisors have authority to grant loans. If the size of the loan comes within this figure and the branch manager's recommendation is O. K., and it has the approval of his best judgment, the supervisor will grant the loan. With us he can loan up to $10,000 on his own judgment, backed by the branch manager's. If the loan is for a greater amount than this, the supervisor makes his recommendation and forwards the application with his and the branch manager's opinion to the head office. The head office usually follows the advice of the supervisor and branch manager. If this should come at a time when it is necessary to restrict loans, we can refuse these big loans or have the customer get along with less."

Managers of branches are required to make weekly returns to the head office of all loans and discounts. They are required to make quarterly reports of profits earned. Every six months they credit earnings to head office. At the end of every month they must submit a balance sheet, a detailed statement of current accounts and liabilities, and a description of all collateral security which they hold. Every quarter they report the amount of profits earned, and twice a year they credit earnings to "head office."

The manager of a branch is allowed, as a rule, to select the members of his staff, but this privilege gives him little patronage, for custom prescribes that vacancies shall be filled by promotion. Boys are engaged as "juniors" at about the age of 14 and are paid a salary of $150 or $200 a year. Rarely does a bank take into its service a youth who is over 16 years of age, or a man who has been trained up in another bank. Practically no university men are in the banking business. Bankers believe that the best results are obtained by taking on boys at 15 or 16 and training them up through the various subordinate positions, gradually increasing their salaries and adding to their responsibilities. When a boy applies for a position in a bank he is given an application blank containing nearly a hundred questions with regard to his parents, schooling, favorite studies, use of tobacco and intoxicants, attendance at church, his present salary and employment if he is at work, etc., and is required to give the names of at least three or more persons, reputable householders, who have known him for five years. If he is hired, he must then take an oath of secrecy, solemnly binding

himself not to reveal to any person any information whatever with regard to the operations of the bank.

These precautions in the employment of juniors are deemed necessary because the bank expects during the coming generations to select its branch managers and general managers from these juniors. After a boy is admitted to a bank he is expected not only to do his work well, but also to conduct himself in the community in an orderly and becoming fashion. If he contracts bad habits, gets into debt, or keeps fast company, he is likely to lose his place in the bank, and he must beware of too early marriage, for his general manager will disapprove if he marries on a salary of less than $1,000. This means that the average bank clerk in Canada can not marry much before the age of 25. The managers of the banks want the members of their staffs to be well dressed and well fed. Marriage on a small salary, they fear, would give their clerks a worried aspect detrimental to the interests of the bank.

Employees are obliged to furnish a bond, which may be supplied either by private persons or by a guaranty company. Some of the banks have formed mutual guaranty funds, to which all employees, from the general manager down, make regular contribution. The bank itself usually contributes at the outset a sum of money out of profits as a nucleus for the fund. Employees are allowed interest on the money they contribute to the fund, and the entire contribution is returned to the employee when he retires from the service of the bank.

Some of the larger banks have instituted pension schemes for the benefit of employees, the directors setting

aside each year a certain percentage of the profits for this purpose and deducting from each employee's salary a certain percentage. The mutual insurance plan has been found more economical than the older methods, and the pension scheme is said to be exerting a most beneficent effect upon the morale of the banks' staff.

Chapter IV.

LOANS AND DISCOUNTS.

The assets of Canadian banks are unusually good for two reasons: First, because the law provides effective safeguards; second, because banking practice in Canada makes it very difficult to negotiate commercial paper of inferior quality.

The bank act gives almost a blanket privilege to a bank.[a] It may engage in all transactions appertaining "to the business of banking." But the sections of the act which contribute most to the quality of its assets are sections 88 and 89. These make it possible for a Canadian banker to become, as it were, a silent partner in an industry and at the same time to possess a first lien on all its liquid assets. A bank may loan money to wholesale dealers and shippers of produce of all kinds and possess a lien, not only upon the goods originally accepted as secured, but upon the goods which in the course of business are substituted therefor. These sections apply also to manufacturers, so that a bank may lend to a manufacturer

[a] The bank may open branches, agencies, and offices and may engage in and carry on business as a dealer in gold and silver coin and bullion, and it may deal in, discount, and lend money and make advances upon the security of, and may take as collateral security for any loan made by it, bills of exchange, promissory notes, and other negotiable securities, or the stock, bonds, debentures, and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign, and other public securities, and it may engage in and carry on such business generally as appertains to the business of banking.

upon the security of his raw material and retain its lien upon the property through all the processes of manufacturing, having the same rights and powers with respect to the goods that it would possess if it had acquired the same by virtue of a warehouse receipt. On account of their importance sections 88 and 89 are printed below:

SEC. 88. The bank may lend money to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of or dealer in live stock or dead stock and the products thereof, upon the security of such products, or of such live stock or dead stock and the products thereof.

2. The bank may allow the goods, wares, and merchandise covered by such security to be removed and other goods, wares, and merchandise, such as mentioned in the last preceding subsection, to be substituted therefor, if the goods, wares, and merchandise so substituted are of substantially the same character, and of substantially the same value as, or of less value than, those for which they have been so substituted; and the goods, wares, and merchandise so substituted shall be covered by such security as if originally covered thereby.

3. The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise, upon the security of the goods, wares, and merchandise manufactured by him, or procured for such manufacture.

4. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of said goods, wares, and merchandise, stock, or products.

5. The security may be taken in the form set forth in Schedule C to this act, or to the like effect.

6. The bank shall, by virtue of such security, acquire the same rights and powers in respect to the goods, wares, and merchandise, stock, or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt. (53 V., c. 31, s. 74, 63–64 V., c. 26, s. 17.)

89. If goods, wares, and merchandise are manufactured or produced from the goods, wares, and merchandise, or any of them, included in or covered by any warehouse receipt, or included in or covered by any security given under the last preceding section, while so covered, the bank holding such warehouse receipt or security shall hold or continue to hold such goods, wares, and merchandise during the process and after the completion of such manufacture or production, with the same right and title, and for the same purposes and upon the same conditions, as it held or could have held the original goods, wares, and merchandise.

2. All advances made on the security of any bill of lading or warehouse receipt, or of any security given under the last preceding section, shall give to the bank making the advances a claim for the repayment of the advances on the goods, wares, and merchandise therein mentioned, or into which they have been converted, prior to and by preference over the claim of any unpaid vendor, provided that such preference shall not be given over the claim of any unpaid vender who had a lien upon the goods, wares, and merchandise at the time of the acquisition by the bank of such warehouse receipt, bill of lading, or security, unless the same was acquired without knowledge on the part of the bank of such lien.

HOW THE LAW PROTECTS THE BANKS.

The law puts the banks in a position to be of great service to the business interests of Canada and at the same time protects their advances. If a bank lends money to a wholesaler or to a manufacturer it practically becomes owner of all the goods in his establishment. Yet the borrower is in no wise embarrassed, for he has the same right to buy and sell that he would have if he were under no obligation to the bank. If at any time, however, he adopts a policy of which the bank disapproves, or if the course of his business indicates that something is wrong, his bank may take immediate possession of his stock of goods. On account of the importance of this class of advances the law sets forth in detail the form of note or contract which the borrower must sign, as follows:

SCHEDULE C.

In consideration of an advance of _____ dollars made by the _____ Bank of A. B., for which the said bank holds the following bills or notes (describe the bills or notes, if any) [or, in consideration of the discounting of the following bills or notes by the _____ bank for A. B. (describe the bills or notes)], the goods, wares, and merchandise mentioned below are hereby assigned to the said bank as security for the payment on or before the _____ day of _____ of the said advance, together with interest thereon at the rate of _____ per centum per annum from the _____ day of _____ (or, of the said bills or notes, or renewals thereof, or substitutions therefor, and interest thereon, or as the case may be).

This security is given under the provisions of section eighty-eight of the bank act, and is subject to the provisions of the said act.

The said goods, wares, and merchandise are now owned by ----------, and are now in the possession of ----------, and are free from any mortgage, lien, or charge thereon (or as the case may be), and are the following (description of goods assigned).

Dated, etc.

(N. B.—The bills or notes and the goods, etc., may be set out in schedules annexed.)

A bank's lien upon property accepted as security for a loan, or covered by a bailee or warehouse receipt or a bill of lading, is superior to that of any vendor unless the vendor's claim was known to the bank when it accepted the goods or documents as security. If a debt is not paid when due the goods put up as security may be sold by the bank at public auction within ten or thirty days after notice has been sent by mail to the pledger. The bank, however, can not acquire this hold on the property of a borrower unless the security is given at the time the loan is negotiated. A bill of lading or warehouse receipt acquired by a bank as supplementary security for a loan gives it no special rights or powers.

BANKS SILENT PARTNERS IN INDUSTRY.

These provisions of the law contribute greatly to the strength of the assets of Canadian banks. A large part of their so-called commercial paper is secured practically by title to goods in warehouses, factories, and wholesale stores. Such security is more saleable than stocks and bonds, and paper having such security back of it is therefore better banking paper than notes secured by stock-market collateral. So far as would seem possible the Canadian bank act makes merchandise of all kinds a sort of collateral security for bank advances. It assumes that

if a bank advances capital for the conduct of a business it should have a claim upon all the assets of the business and upon all goods as they come and go in the course of trade. No matter how a merchant's stock may change in character, it all belongs to his bank in case he fails to take up his paper or meet his engagements. In the same way a manufacturer's stock of goods, the raw material and the finished products, no matter how they change from day to day and month to month, will become the property of his bank if he fails to pay his note. The law practically makes every bank a silent partner in many wholesale and manufacturing businesses and gives it many rights which no ordinary silent partner can acquire. It has the effect naturally of making bankers keep a close eye upon business conditions as well as upon the affairs of their individual borrowers. Canadian bankers are interested in the lumber market, in the prices of metals, in changes in the tariff, and in the acquisition of foreign markets for Canadian manufactures and products, even as the Wall street banker is interested in the prices of stocks and bonds. He is in a sense the owner of merchandise of all kinds, and both trade and financial news have equal significance to him.

The law contains a number of other important provisions. A bank, for example, must not make a loan secured by the pledge of shares of its own capital stock. If it makes loans to any directors or officers of the bank, the amount of such loan must be reported each month to the government. No general manager or other employee of the bank can vote at a meeting of the stockholders. The bank must not pay dividends in excess of 8 per cent unless it has a rest or surplus equal to 30 per cent of its

paid-up capital. It shall not hypothecate its notes. It shall not buy and sell goods, nor shall it make advances upon real property as security. It may acquire title to real estate and other immovable property, but can not hold such property for a period exceeding seven years, except that which is needed for its own business.

A CUSTOMER'S LINE OF CREDIT.

These legal safeguards are not the most important sources of strength to the assets of a Canadian bank. No matter how carefully a law may be framed, it can not prevent bad banking if the system under which the law is applied is unscientific or if the bankers themselves are not keenly alive to all the risks inherent in their business. In Canada the banks are managed by men whose long experience in the business has taught them to avoid certain banking practices that are in vogue in other countries. Realizing how important is the relation between a bank and its customer, they believe that this relation should be made as intimate and helpful as possible. Among Canadian bankers, therefore, it is part of the law and gospel of banking that a bank is entitled to full knowledge of the financial condition and business operations and prospects of its customers. Hence a bank insists that its customers shall rely entirely upon itself, that they shall make a full statement of their affairs at least once a year, and that they shall begin each year with a clean slate.

As a result of this policy a business man in Canada deals exclusively with one bank. Once a year he arranges with his bank for a line of credit and learns exactly the amount of paper he will be able to discount. If he happens to

need less than he anticipated, he will not exhaust the credit allowed by the bank and will pay interest, of course, only upon such portion of the bank's funds as he actually utilizes. If, on the other hand, his business is unexpectedly large, giving opportunity to make bigger profits and creating the need for more capital, he will find the bank ready to increase his line of credit, provided the manager is satisfied that business conditions and prospects warrant expansion. Under no circumstances, however, must the customer of a bank seek to raise funds elsewhere unless he first gets the consent of his bank. If he sells his notes in the open market, he must do it with the full knowledge of his bank or run the risk of being placed upon the "black list."

THE "ONE-BANK" POLICY.

This "one-bank" policy is so thoroughly a part of the Canadian system that a merchant would find it very difficult, having exhausted his credit at one institution, to get a favorable hearing at another. The very first question put to him would be, "Where have you been keeping an account, and why do you wish to make a change?" If his answers were not satisfactory, the manager of the second bank would either decline outright to help him or get in touch with officers of the bank with which he had been doing business.[a]

[a] A general manager of a large bank gave his views of the one-bank policy as follows: "In the States the banks are not large enough to furnish all the credit accommodations needed by the larger firms and corporations. So such concerns are forced to raise funds by selling their commercial paper through note brokers. This paper must be paid when due, and in panicky times, there being less demand for the paper, the concerns are denied credit when they need it the worst. Consequently solvent firms

The effect of this policy upon the quality of the bank assets is undeniable. The bulk of the paper held by Canadian banks bears the signatures of men whose business affairs and financial status and general credit have long been well known to the managers. They feel morally certain that the same signatures are not in the portfolios of other banks. The manager of a bank knows the extent to which each borrower's credit has been extended. He knows not merely what his assets and liabilities were when he made application for credit, but has every reason to believe that he knows all the obligations he has assumed since that date.

As one would naturally expect, there is very little commercial paper floating about in the Canadian money market. The bill broker is unknown. Wholesalers and manufacturers, unless shipping to foreign countries, do not draw upon their customers. If credit is granted, it takes the form of a book account or of a promissory note.

The promissory notes received by a manufacturer or wholesaler are deposited with his bank. The book accounts under ordinary conditions remain entirely at the disposal of the business, but in extraordinary cases,

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have been pushed to the wall. In Canada it would be a disgrace to a bank if it should force a creditor into an assignment just because he happened at the time to be hard up, through a panic or otherwise, and then have it proved that the firm was really solvent all the time.

"When a firm does all of its banking business with one bank or, if it is a very large firm, with two or more banks who work in harmony, the bank or banks will not allow a line of credit which will make the firm insolvent in case of an ordinary depreciation of values or partial failure of some new expansion.

"By having all of a firm's business we can and do safely make loans that would make the hair of a banker across the line stand on end."

when the situation is not satisfactory, or if additional credit at the bank is desired, an assignment of the book accounts to the bank may be required.[a]

During the harvest season heavy drafts are made upon the resources of the banks to provide for the movement of the grain crops of the West. In its advances of money for this purpose the law makes it possible for a bank always to have abundant security. Under

[a] The head of a large wholesale house in Montreal talked as follows about his firm's dealings with the banks: "We, like many other firms, have two lines of credit. One is our single-name paper up to a certain amount. All in excess of that is secured by trade paper. By the banks getting so much of this trade paper and of the drafts, it can keep in close touch with a firm's business, not only with ours, but with our customers' as well. We discount a customer's paper. He also has the paper discounted which he gives to other wholesalers and manufacturers. If he is straining his credit, the bank is in a good position to know it and to warn us.

"The accounts of some of the largest firms or corporations are often divided between two banks. In this case the two banks work in harmony and they keep in touch with the total debts of the firm by working together.

"Some of our merchants and manufacturers thought at the time of the panic of 1907 that the banks were too severe on them, but looking backward they all now think that in view of the extent of the panic and the conditions that followed, the banks gave them all the assistance they could have expected.

"In our line of business we draw drafts on our customers for from thirty to one hundred and thirty days. These we discount at our bank and deposit as cash. The bank then forwards drafts through its branches, and after they have been accepted by the customers, holds them for maturity. In this way the bank has both us and the customer on the paper, although they have to be vigilant in the matter of presenting for acceptance and for collection at maturity.

"Our business a few years ago was conducted more on a credit basis than it is now. We then gave two to six months. However, as the banking facilities have increased throughout the country, commercial credit has been contracting.

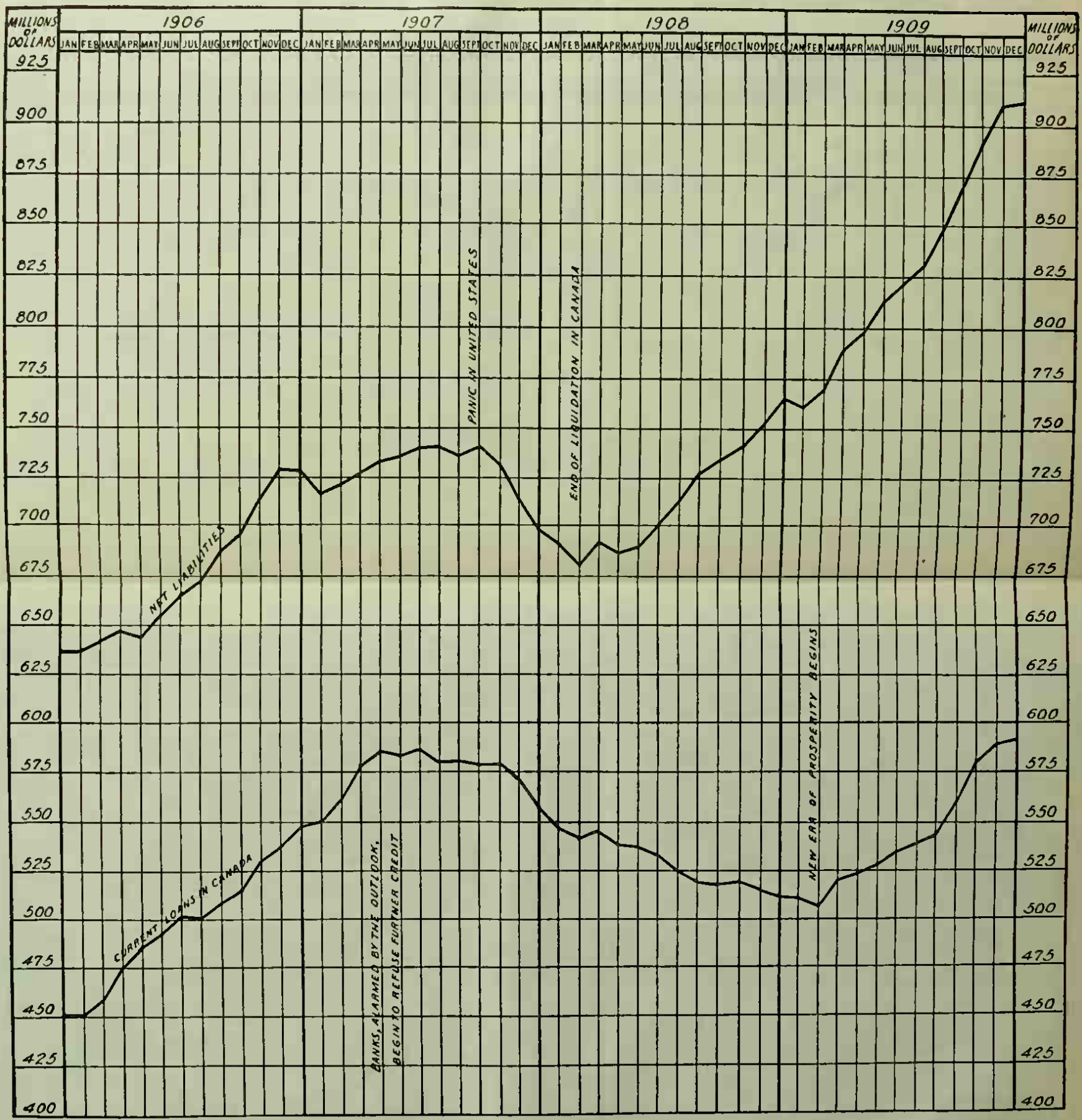
"Our business is facilitated because warehouse receipts may be given on material in the borrower's own yard, which may be put up as collateral. If the note is not paid at maturity the material back of the receipt may be taken as easily by the bank as though the warehouse receipt was from one of the public warehouses in the States."

section 88 of the bank act the buyer makes assignment to his bank of the grain purchased. When the grain is delivered to a railroad, the bill of lading becomes the property of the bank. When it reaches Port Arthur, or some other distributing point, and is stored in an elevator, the bank receives a warehouse receipt in exchange for the bill of lading; and when shipment is made to New York, to Montreal, or to Europe, the bank receives on surrendering the warehouse receipt the shipper's draft on the consignee, the bill of lading, and other documents. Throughout the entire transaction, from the purchase from the farmer to the final sale to the eastern consumer, the bank practically has title to all agricultural products which are being moved by means of its funds.

LOANS TO FARMERS.

The branches of Canadian banks in agricultural districts quite commonly lend assistance to farmers. They do not make a practice of taking mortgages on farm property, but lend outright on the farmer's credit, depending for their security upon his character as a man and ability as a farmer, and often as well upon a neighbor's indorsement. Farmers' paper ranks high among the Canadian bankers and constitutes a considerable proportion of the assets of some of the banks. The banks, of course, do not undertake to supply the farmer with anything more than working capital. They do not help him pay for his land and buildings, but they do let him have at least part of the money he needs for tools, wages, seed, stock, etc. Despite the fact that these advances are unsecured by mortgage, the banks suffer very little loss on farm paper.

CHART I.—NET LIABILITIES AND CURRENT LOANS IN CANADA, 1906–1909.



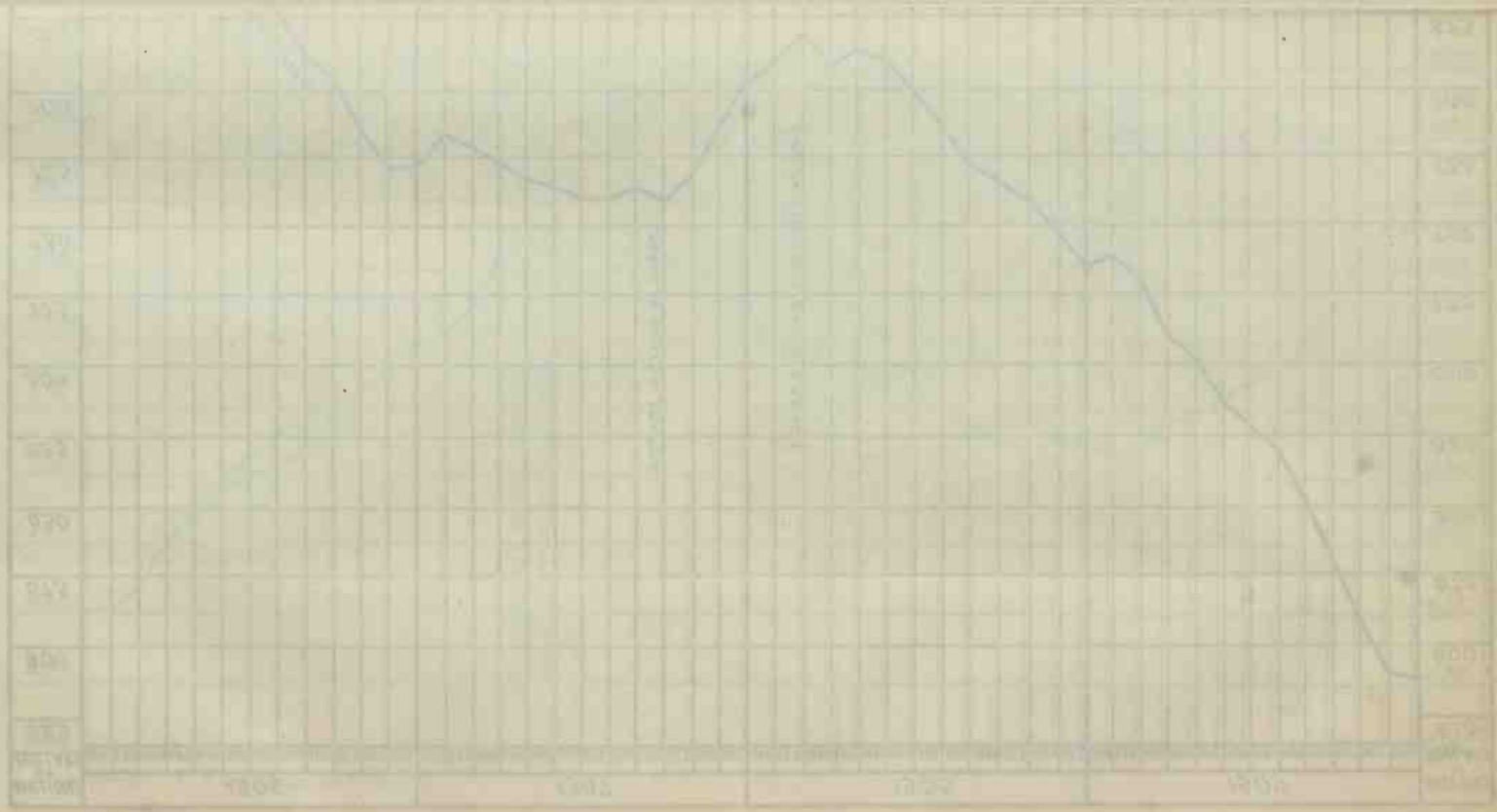
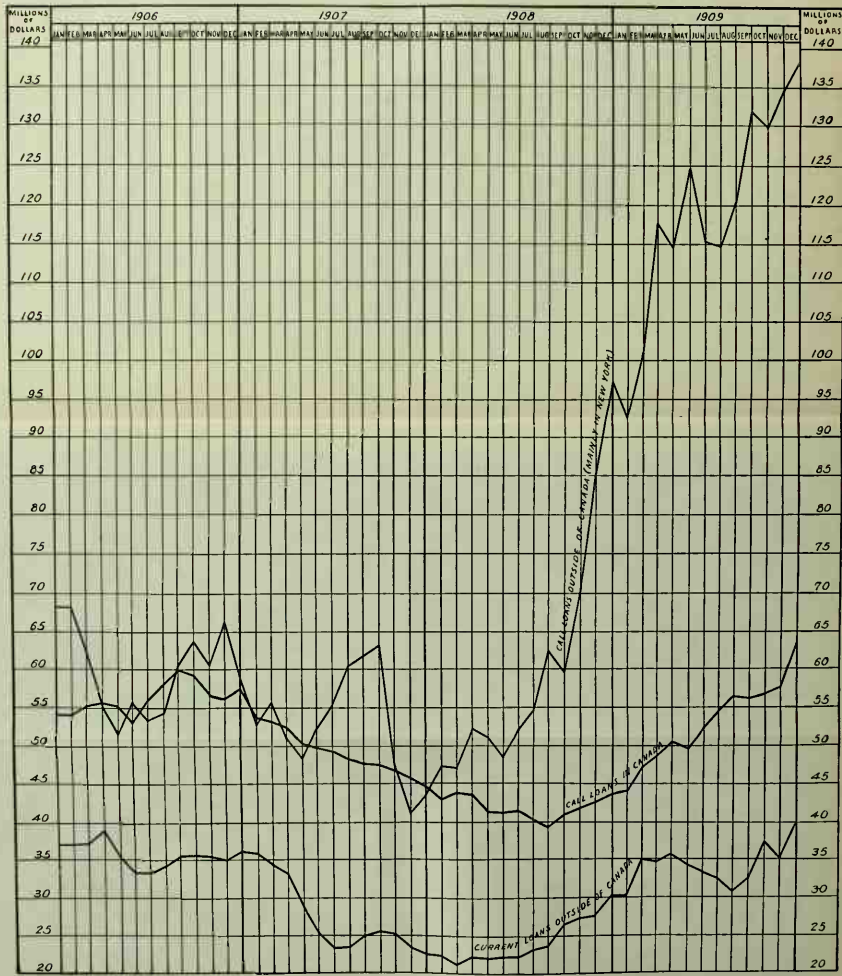
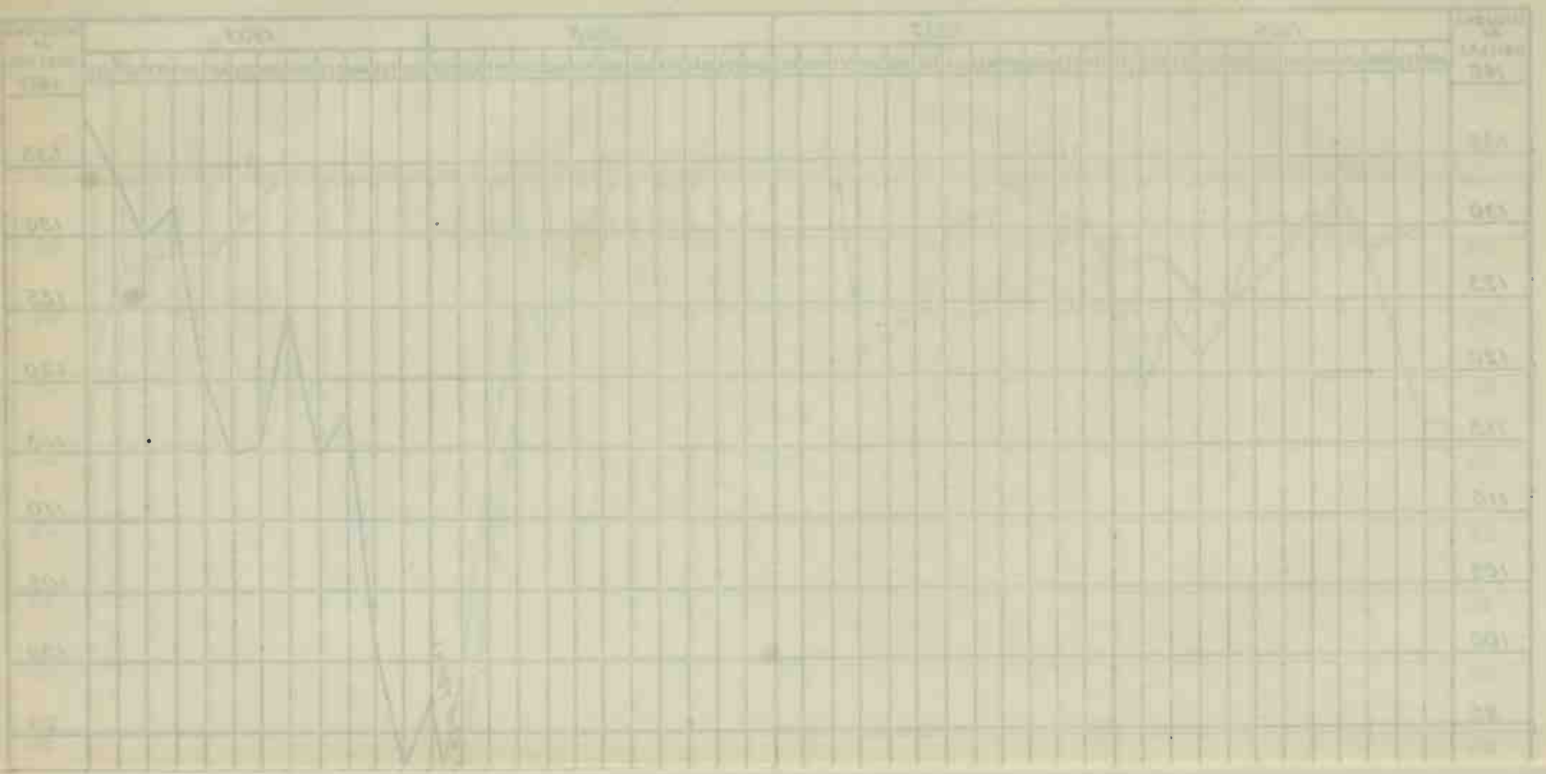


CHART II.—CALL LOANS IN CANADA AND ELSEWHERE, AND CURRENT LOANS OUTSIDE CANADA, 1906–1909.





CALL LOANS IN CANADA AND ELSEWHERE.

After "current loans in Canada" the next largest item among the assets is "call and short loans elsewhere than in Canada." For example, this item in October, 1909, amounted to $130,000,000, while the current loans in Canada were $580,000,000. The call loans outside of Canada consist mainly of loans in the New York market and are as a rule secured by collateral easily convertible into cash. These loans are regarded by Canadian bankers as equivalent to cash and are figured by them as part of their reserve. Only the larger banks make a practice of loaning on call in New York. In October, 1909, for example, the Bank of Montreal's call loans outside of Canada amounted to over $77,000,000, which was about 70 per cent of the total for all the banks. Indeed, this bank's call loans outside of Canada during this month were only about one and one-half million dollars less than its current loans in Canada. The Canadian Bank of Commerce during the same month had $19,000,000 loaned on call outside of Canada and $72,000,000 invested in current loans in Canada. The Bank of British North America had $9,000,000 on call outside of Canada; the Merchants' Bank, $7,389,836; and the Bank of Nova Scotia, $4,000,000. The call loans of these five banks amounted to over 90 per cent of the total. During that month 14 of the banks had no funds whatever invested on call outside of Canada.

The item of "call and short loans on stocks and bonds in Canada" is relatively unimportant. In October, 1909, it amounted to only $56,996,065 and was pretty evenly distributed among the different banks, except that no such

loans whatever were reported by the Bank of Montreal. These are not call loans in the New York sense of the word. The market for securities in Canada is narrow and inactive, and Canadian bankers realize that a demand loan secured by the stock or bonds of a Canadian corporation can not be realized on promptly without considerable sacrifice on the part of the lender.

A demand note in Canada, as in most of the smaller cities in the United States, means merely that the bank has a right to call for payment at any time; that the borrower will pay when called if he can, and that if he can not take up the note immediately, the bank will give him such time as may be necessary for raising the money. This item of call loans in Canada, therefore, is not subject to such great fluctuations as the item "call loans elsewhere." The rate of interest on call loans is always a trifle lower than the rate on commercial discounts. Consequently, when there is an increasing demand for money on time, borrowers on call are less welcome at the banks and the amount of call loans in Canada is quite likely to decline. For example, throughout 1906 the amount of current loans in Canada, which includes time loans and commercial discounts, was steadily on the increase. The total rose from $450,000,000, January 1, 1906, to $585,000,000, April 1, 1907. Here was a gain of $135,000,000. During this same period the amount of call loans in Canada rose from $55,000,000, January 1, 1906, to $60,000,000 in August of that year, and then almost steadily declined, having been less than $50,000,000 April 1, 1907.[a]

[a] Charts I and II on pages 46–47 show changes in the different classes of loans during the four years 1906–1909.

AS FINANCIAL INSTITUTIONS.

That the chartered banks of Canada are financial as well as commercial institutions is evidenced by their holdings of stocks and bonds. In October, 1909, they held of railway and industrial stocks and bonds $51,000,000, of municipal bonds $21,000,000, and of Dominion and provincial government securities $13,000,000; total $85,000,000. These securities represent partly an investment carried as a secondary reserve and partly a business carried on for the benefit of their customers. In Canada the demand for long-time investments is not large, but whatever market there is for securities is mainly in the hands of the chartered banks. An investor seeks the advice of a bank manager and often is able to obtain from him securities which satisfy his needs. The banks do not publish a list of their holdings, but it is generally taken for granted that they carry only gilt-edge securities. If a customer desires to obtain second or third rate securities, being eager for a high rate of return, a bank can accommodate him, not by selling him out of its own stock, but by negotiating the purchase of the desired securities in New York or London.

As the wealth in Canada increases and idle capital accumulates in excess of its immediate needs, this financial side of the business of Canadian banks will doubtless expand. It may, indeed, during the next generation or two greatly expand and become an important feature of the chartered banks. They are in a position to take care of the business as it develops and will doubtless be able to prevent the establishment of any purely financial banking houses in Canada.

Chapter V.

LIABILITIES.

The liabilities of Canadian banks, like those of commercial banks in Great Britain and the United States, furnish a fairly correct index to the expansion of the country's credit. Since the Canadians, like other Anglo-Saxons, make free use of the check book in the settlement of both business and private accounts, any increase of bank loans and discounts is usually attended by a corresponding increase in deposits. When a Canadian business man discounts his note at his bank he almost invariably leaves the proceeds on deposit with the bank. As he makes his payments by check his own deposit account declines, but the bank accounts of his creditors increase, so that the net result of borrowing in Canada is an increase in the total of bank deposits. Consequently, in good times, when the banks are freely extending credit, the deposits grow, and in periods of dullness and liquidation they decline. A growth of deposits, therefore, is commonly accepted as an indication of business and industrial activity.

Bank notes constitute the second important liability. The amount of these in circulation, as will be shown later in this chapter, has little relation to general business conditions or to the amount of loans and discounts.

THREE KINDS OF DEPOSITS.

Deposits by the public are of three kinds—deposits payable on demand, deposits payable after notice (usu-

ally ten to fifteen days), and deposits payable at a fixed date. The deposits payable after notice are commonly known as savings bank deposits, and are accepted in sums of $1 and upward, interest being allowed on minimum monthly balances. Many of the banks, if not all, permit a limited use of the check book by depositors in their savings departments. The deposits payable at a fixed date are technically known as "time deposits" and are represented by deposit certificates. In recent years the banks have paid 3 per cent per annum on both the "time" and the savings bank deposits. In the monthly bank statement these two classes of deposits are reported under the single head of "deposits by the public payable after notice or on a fixed day," and are commonly known as the "time deposits." On January 31, 1909, these deposits amounted to $443,170,532, but the returns do not show how much of this sum consisted of deposits in the savings department and how much of "time" deposits payable at a fixed date. As the two classes of deposits are quite different in character, one being much like a current account subject to check, the other being comparatively fixed or permanent, it would seem worth while to report them in separate columns.

In Canada the funds of savings bank depositors, who are usually people having no immediate use for their money, contribute directly toward the furtherance of trade and industry, whereas in the United States, where such depositors put their money into savings banks, it is quite commonly loaned out upon the security of real estate and corporation mortgages. The time deposits in Canada are almost double the demand deposits. For instance, in

October, 1909, the time deposits amounted to $481,000,000 while the demand deposits equaled only $251,000,000. It must not be inferred, however, that the whole of this $481,000,000 would have found its way into savings banks had Canada a banking system like that of the United States. This sum really represents funds which in the United States would be distributed among the commercial banks, the trust companies, and the savings banks. A considerable proportion of Canadian time deposits consists of money belonging to business men, and is quite as likely to be used in the furtherance of business enterprise as are any of the funds which stand to the credit of demand depositors. If a business man in Canada has temporarily a large balance in his bank and realizes that he will not need the money for several months, he will either arrange for its entry as a time or savings bank account, or for the payment of interest on his balance as a current account. Of course, the bankers do not encourage this practice, nor can it be indulged in by a depositor who is also a borrower. Depositors of the class who are paid a small rate of interest—usually 2 per cent—by national and state banks in the United States, usually have savings department accounts in Canada and get 3 per cent.

SAVINGS DEPOSITS ALWAYS PAID ON DEMAND.

On account of the fact that the time or savings bank deposits contain such a large proportion of money likely to be needed in business at any time, the banks regard both classes of deposit as being essentially the same form of liability. Practically all the deposit liabilities of a Canadian bank are payable on demand, although payment

on two-thirds of them at the present time can not legally be demanded until after notice. Custom has made it imperative that a Canadian bank shall pay any and all of its depositors on demand. For any bank to refuse to let a depositor have his money when he calls for it would be regarded by the public as an acknowledgment of weakness. Certainly no Canadian bank would take the risk of making the experiment.

Canadian bankers feel that 3 per cent is too high a rate of interest to pay depositors. This rate is a matter of tacit agreement among the banks and no single bank can afford to lower it, for such action would cause it a loss of business. On the other hand, if any bank, hoping to increase its deposits, should offer to pay 3½ per cent or 4 per cent, its conduct would be looked upon with grave disapproval by its competitors. Some of the new banks in recent years have obtained business in this manner and have been severely criticised by the managers of the older institutions.

SAVINGS DEPOSITORS NOT PROPERLY REWARDED.

To an outsider it would seem that the savings bank depositor in Canada is not generously treated. In the United States he gets 4 per cent on his savings even in the large cities. In Canada, a country where real estate mortgages yield from 7 to 9 per cent and the bonds of new corporations are selling at prices giving the investor a higher return than he can get in the United States, it is certain that a real savings bank could well afford to pay depositors 4 per cent. It is doubtless true that 3 per cent is a higher rate of interest than most of the savings depositors in the

chartered banks have a right to expect. A large part of these deposits are not savings deposits at all. Nevertheless it is doubtful if the banks would be justified in a reduction of the rate.

The right solution of the problem seems to lie in another direction, namely, in the making of a sharper distinction between demand and savings deposits. The funds received from both classes of depositors should not be treated alike. The money of savings bank depositors should be invested in bonds and mortgages and then could be made to yield a net return of over 5 per cent. If the depositors were not allowed to check upon their accounts they would be a source of such little expense to a bank that it could easily afford to pay them interest at the rate of 4 per cent. At the present time the banks are paying 3 per cent interest on money which they are lending to commercial borrowers and for the care of which they are maintaining an expensive force of clerks. Depositors who have checking accounts might be allowed 2 per cent on large balances, but out-and-out savings depositors, people who make no use of the check book, are certainly entitled to a 4-per-cent rate in a country where investment capital is as fruitful as it is in Canada.

Strictly speaking, the savings departments of the Chartered Banks are not savings banks, for they do not pretend to devote their time funds to long-time investments. The amount of securities held by the banks is never equal to the amount of time deposits. For example, in October, 1909, the deposits payable at a fixed date or after notice amounted to $480,000,000, against $86,000,000 invested in securities. The banks in the use of funds at their dis-

posal make no distinction between the funds received from the different classes of depositors. Every depositor's money goes into the bank's general fund, most of which is loaned on short-time paper to merchants and manufacturers. Thus in October, 1909, when the deposits payable on demand amounted to only $251,000,000, the current loans stood at $580,000,000.

A thorough reorganization of the savings departments of the chartered banks, to equip them for the real business of a savings bank, would not be possible without an amendment of the bank act, which now prohibits them from loaning money upon real estate or upon the security of real-estate mortgages. It is generally believed that this prohibition is commonly evaded by the banks through the acceptance of such mortgages as "additional security" after loans have been made. A savings bank, of course, must have the legal right to accept such security.[a]

NO BANKERS' BANK.

The indebtedness of banks to banks is not large in Canada. The branch system makes it unnecessary for banks to carry balances in other institutions located in the financial centers. Nearly every bank has a branch in either Montreal or Toronto and in these branches carries the major proportion of its cash reserve, so that branches in the far west or in the maritime provinces are always able to sell ex-

[a] The government savings institutions, although paying the same rate of interest, are in no sense competitors of the chartered banks. The latter pay the depositor on demand; whereas the depositor can get money from the government only after several days' notice. Some of the loan companies accept savings deposits and pay interest at from 3 to 4 per cent per annum, permitting also a limited use of the check book. The total of such deposits in loan companies in 1909 was $22,000,000.

change on Montreal or Toronto. Canada has no bankers' bank. The Bank of Montreal, which is the largest bank in the Dominion, its assets being equal to about 25 per cent of the total, is often spoken of as the government bank because it is the largest government depositary, yet it holds a very small amount of funds belonging to other banks. In the statement of October, 1909, the balances due to other banks in Canada amounted to only $5,269,216. Of this sum the Bank of Montreal held $1,395,935, and the Merchants' Bank, $1,309,008.

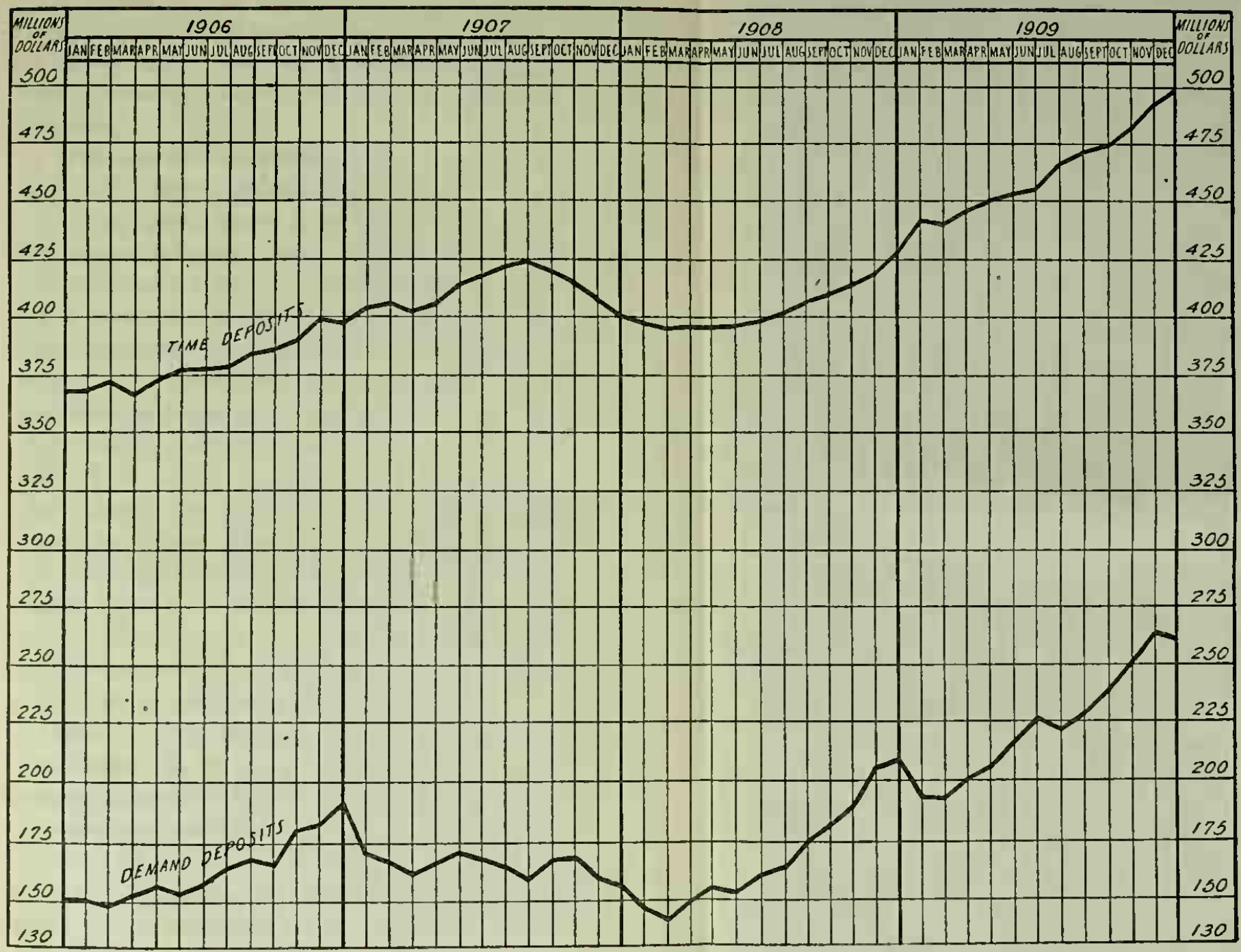
Chart III on the opposite page shows the changes in time and demand deposits during 1906–1909. It is interesting to note that demand deposits fell off much more than time deposits during the panic year 1907, and that both greatly increased during the two following years. The growth of deposits during 1909 was generally regarded in Canada as a most encouraging sign.

ISSUE AND REDEMPTION OF NOTES.

While the amount of notes that the chartered banks may issue is limited by the bank act to the amount of their paid-up capital,[a] experience has proved that this legal limitation is only nominal and that the real and effective limit is imposed unconsciously and automatically by their customers and themselves. Each constantly seeks to increase its issue of notes to the legal limit, yet the combined efforts of all are never able to force into circulation more notes than the people need.

[a] The only exception is the Bank of British North America. It operates under an old charter from Great Britain and its head office is in London. The stockholders are not subject to a double liability, and the bank can issue notes only to the extent of 75 per cent of its paid-up capital. It may exceed this limit by depositing gold or government bonds, and frequently does so.

CHART III.—TIME AND DEMAND DEPOSITS, 1906–1909.



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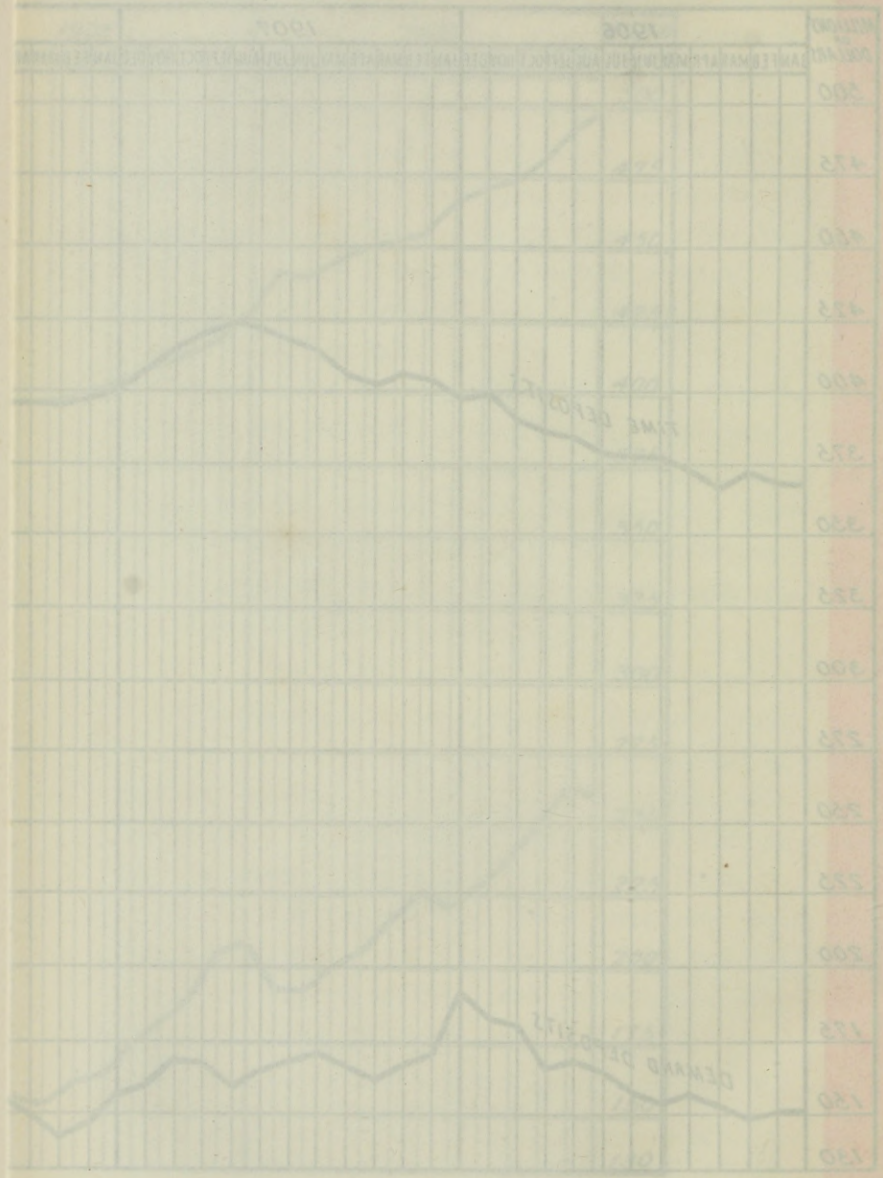

The reason why an excessive issue of bank notes in Canada is impossible is found in the two following facts:

1. Every bank must redeem its notes on demand in seven commercial centers in different parts of the Dominion.

2. The monetary circulation of Canada, exclusive of $1 and $2 bills, consists entirely of bank notes.

The redemption system is an automatic and effectual check against inflation. It is easier to get notes redeemed in Canada than it is to secure the payment of checks in the United States, for the notes are redeemable at different points throughout the Dominion and no exchange is ever charged. If a country merchant accumulates more currency than he desires to keep on hand, he deposits it, together with his checks and drafts, in the local branch of his bank. This branch immediately sorts out the notes of other banks and treats them as it does checks and drafts upon other banks, either sending them to the nearest redemption agency or using them as an offset in the local clearing house if the issuing banks have branches in the locality. The branches of a bank are not obliged to redeem the notes of the parent bank, but must accept them at par in the payment of all dues. Thus each bank is doing its utmost to bring about the redemption of the notes of other banks. At the same time it is paying out its own notes to all customers who ask for cash, seeking to bring its circulation up to the limit. As a result of these operations, two powerful forces are constantly at work, one putting notes into circulation, the other retiring them, and the people of Canada always have on hand just the amount of currency they need and no more. It is the people, not the

banks, who determine how much the circulation of the banks shall be.

BANK NOTES HAVE NO COMPETITION.

The fact that the bank note has exclusive possession of the monetary field in Canada is most important. His ignorance of this fact is one reason why the average banker or business man in the United States has been unable to get a practical understanding of the Canadian system. Its significance is easily seen. If Canada, like the United States, had in circulation a lot of government notes in denominations of $5, $10, $20, the Canadian banks would be able to increase their issues of bank notes almost without limit, for their new notes would simply take the place of the government notes, the latter going into bank reserves. The people of Canada in making deposits would not discriminate against bank notes, but would deposit the government paper quite as freely as the bank paper. As a result, the amount of the government paper in circulation would gradually decrease and the amount of bank notes would increase. The volume of Dominion notes in the vaults of the banks would expand, and as these notes are redeemable in gold the banks would feel justified in larger extension of their credit, so that an increase in deposits and current loans would ensue. Under such circumstances such freedom of issue as is enjoyed by the Canadian banks would doubtless result in inflation.

But such conditions do not exist in Canada. All the paper currency in the hands of the people, excepting $1 and $2 bills, is in the form of bank notes. There is no chance to substitute bank notes for government notes.

Hence, if at any time business relaxes and the need for money among the people grows less, an increasing tide of bank notes flows into the banks. The people who bring these notes do not ask for money in exchange, for to them the notes are money. They take bank notes to the banks just as people in the United States take greenbacks and silver certificates—to be exchanged for a deposit credit or account.

ELASTICITY OF THE CIRCULATION.

The redemption system, besides making currency inflation impossible, results also in what is commonly called "elasticity," by which is meant capacity to expand and contract in automatic response to the country's need of currency. Such elasticity is desirable for the reason that it enables the banks to satisfy the mere currency needs of a country without increase of their liabilities or diminution of their power to lend.

Canada, like every other country, at certain seasons of the year makes use of more currency, or hand-to-hand money, than at other seasons. This currency is supplied by the banks. If they were not permitted to furnish it in the form of their own notes, they would be obliged to furnish it in the form of lawful or legal tender money, and would at the same time be compelled to restrict their loans in order that they might reduce their liabilities, the loss of the legal tender money having by so much reduced their cash reserve. Since the Canadian banks, however, meet the seasonal needs for currency by the issue of notes, their liabilities are not changed, for their deposits decline by as much as their notes increase. It is clear that if a de-

positor draws $1,000 from his bank and receives $1,000 in the notes of the bank, the liabilities of the bank have not been affected. It has simply converted a deposit liability into a note liability. Its reserve of legal tender money having been untouched, it is under no necessity to reduce its loans. It follows that since a Canadian bank is able to supply its depositors' needs for cash with its own bank notes, it can do so without being compelled to lessen its usefulness to the community as a lender of money.

It is evident also that every bank will steadfastly pursue this policy of paying out its own notes and getting the others redeemed. If in the course of business it receives from its depositors the notes of other banks, it does not pay these out again, for they are convertible through the redemption agencies into legal tender money. The more of such money a bank has in its vaults, the stronger its position and the greater its power to lend. Every dollar of legal tender money that a Canadian bank can retain in its cash reserve, adds $10 to its lending power, permitting the safe increase of its liabilities by the same amount.

That the redemption system contributes to the acceptability and elasticity of the Canadian bank note more than any other factor must be evident to anyone who considers how the system would operate if the efficient redemption machinery were lacking. Every bank must redeem its notes in seven different cities, and no bank is obliged to accept the notes of other banks either on deposit or in payment of dues to it. Yet on account of the ease with which notes are redeemed, every bank accepts at par the notes of all other banks exactly as if they were legal tender,

and then sends them to the nearest redemption center to be exchanged for gold coin or Dominion notes, or to be used as a credit offset in the redemption of its own notes. It is this ease of redemption which gives the circulation its elasticity and makes it immediately responsive to every fluctuation in the needs of business. If the notes were redeemable only at the place of issue, which is usually the head office of the bank, they would frequently be at a discount in remote parts of the Dominion and would often stay in circulation among the people for a period longer than necessary. A tradesman does not like to deposit money in a bank at a discount if he can circulate it at par among his customers. Just as the notes of country banks before the establishment of the Suffolk banking system in New England filled the channels of circulation in Boston, so in Canada, without its present redemption system, the notes of each bank would doubtless very soon find lodgement in distant communities and remain in circulation in excess of the real needs of the people. Canada would, indeed, have an abundance of currency, but it would be exposed to all the risks of depreciation and the banks would be tempted to adopt schemes for the increase of their circulation which in the end would prove fatal to the soundness of the currency.

The Canadian bank note might still be good even though it were not a first lien upon the assets of a bank, or even if its payment were not in a measure guaranteed by all the banks, or if stockholders were not subject to a double liability. Indeed, all three of these safeguards might disappear and yet the Canadian bank note remain a safe, elastic, and acceptable medium of exchange. But

if the redemption system were destroyed, Canada would very soon be filled with a banking circulation in varying stages of depreciation.

NO LIMIT OF ISSUE REALLY NECESSARY.

Theoretically there is no reason why any limit should be fixed upon the amount of notes which a bank may issue. Even though a bank has a monopoly of issue in a country—like the Bank of France—it nevertheless is unable to expand its circulation beyond the people's needs. Such a bank, unless it should adopt a reckless policy of lending which would bring ruin quickly upon itself, can exercise very little influence upon the amount of currency in circulation. In a country like Canada, where several banks are issuing currency, no single institution can enlarge its issue of notes beyond the needs of its own customers. If it should endeavor to do this by lending freely to customers who promised to use its notes in different parts of the country, the effort would be futile. The notes would quickly find their way into the branches of other banks and be sent in for redemption.

Like most other countries, however, Canada has placed a limit on the note-issuing privilege, fixing it at the amount of a bank's paid-up capital. While there is no scientific necessity that such a limit be fixed in order to prevent the over-issue of notes, nevertheless there are other considerations which justify it. It is an indirect method of compelling banks to increase their capitalization *pari passu* with the growth of their business. Inasmuch as the capital of a bank is the stockholder's contribution

toward its assets, it is exceedingly desirable that this contribution be made as large as possible, for, other things being equal, the strength of a bank varies with the amount of its capital. It is not unreasonable, therefore, to require that banks in return for the useful note-issuing privilege should be required to keep their capital resources large.

When a Canadian bank has reached the limit of its note issue—which has rarely happened—it begins at once to treat the notes of other banks very much as if they were its own. Instead of going to the expense of sending them in for redemption, it uses them as counter money, paying them out to depositors in response to their calls for cash. If all the banks in Canada should issue notes up to the limit, as some of them did during the exciting months of 1907, and if the current rate of interest did not warrant the issue of the taxed notes provided for by the amendment of 1908, the note circulation would immediately lose its elasticity. As further expansion would be impossible, the banks would have to meet any increasing demand for currency by paying out gold and Dominion notes, thus depleting their reserves. Such a situation would doubtless lead to a sharp advance in the discount rate and to the importation of gold.

THE PRACTICAL LIMIT UNDER THE LEGAL.

It should be noted that the practical limit of note issue is about 10 per cent below the legal limit. The manager of a bank having a paid-up capital of $1,000,000 begins to get nervous when his circulation equals $900,000. His office may be in Montreal and his bank may have branches

in the far East and in the far West and in the mining wilderness of the North. Some of these branches he can not reach by telegraph and some are distant a week by mail.[a] He immediately sends warning to all the branches and cautions them against any large outgiving of notes and against entering into transactions which will be likely to lead to unusual demands for currency. On account of this situation, even in times of greatest pressure, the total issue of the banks is usually 10 per cent below the authorized limit.[b]

Chart IV, on the opposite page, shows the circulation during the last ten years; also the comparative increase of the paid-up capital and the surplus. The reader will note that the amount of notes outstanding is invariably largest in November and smallest in February, and that the surplus has been increased at a more rapid rate than the capital.

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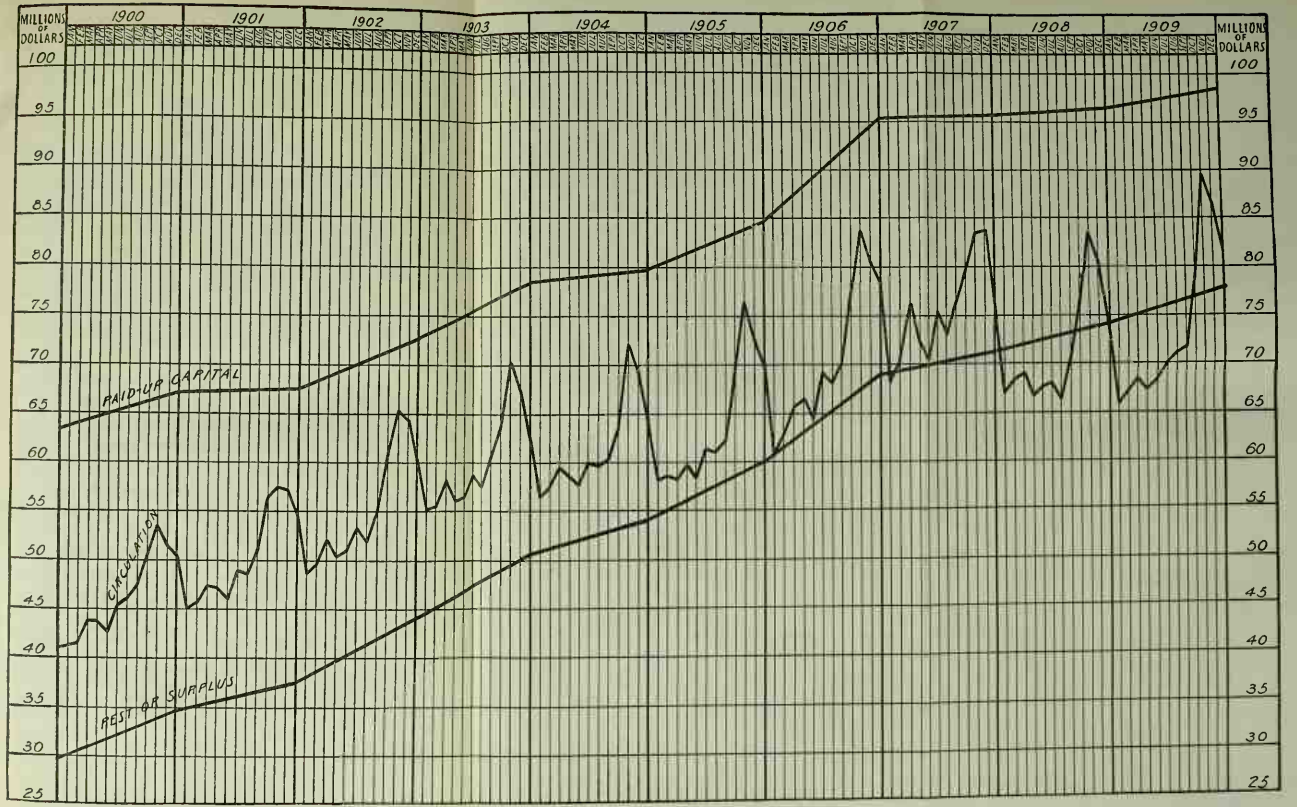
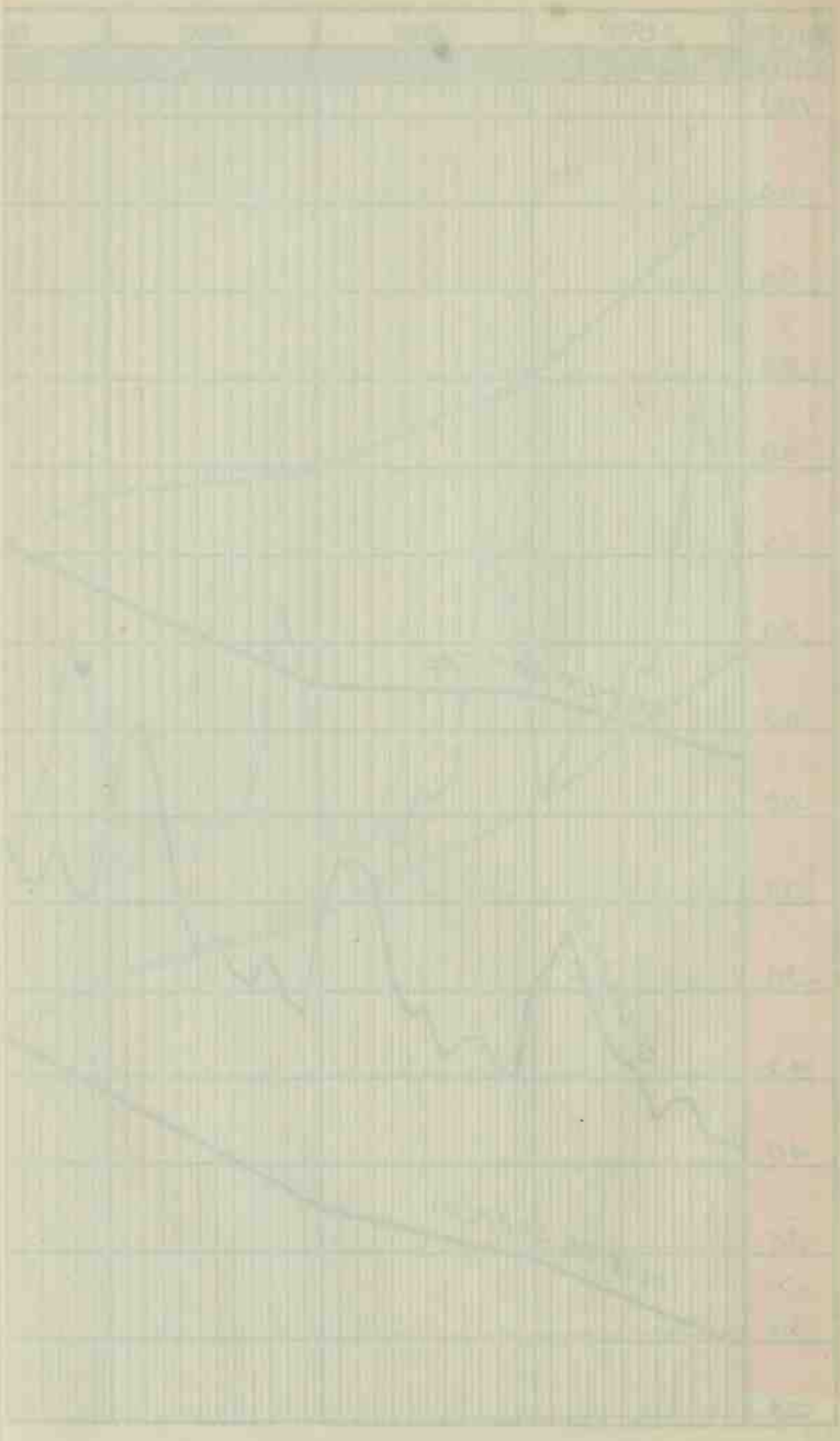
[a] Said a general manager in Montreal: "We have trouble at times keeping exactly within the limit, and have to keep about half a million under it. Our branches always have on hand a stock of notes which if they were all issued would run the total outstanding above the limit. When the total approaches the limit, I notify the branches not to issue above a certain amount, say $10,000, without wiring me. It takes a week to hear from our Yukon branch."

[b] The penalty for excessive issue of notes is severe. If the excess is less than $1,000 the penalty equals the amount of the excess. If it is between $1,000 and $20,000 the penalty is $1,000; if it is between $20,000 and $100,000, the penalty is $10,000; between $100,000 and $200,000, penalty is $50,000. If it exceeds $200,000, the penalty is $100,000. The fact that such large penalties overhang them explains why the maximum issue of Canadian bank notes is usually $10,000,000 under the authorized limit.

CHART IV.—GROWTH OF CAPITAL, SURPLUS, AND CIRCULATION. 1900–1909.





Chapter VI.

THE RESERVE.

The subject of cash reserves [a] is disposed of in the bank act in two short paragraphs; the first providing that not less than 40 per cent of a bank's reserves shall be in Dominion notes, the second instructing the minister of finance to arrange for the delivery of Dominion notes to any bank in exchange for specie. As for the amount of cash reserve to be carried by a bank or its ratio to net liabilities, the law is silent. Every bank manager is free to keep his reserve at any figure which in his judgment is adequate.

There is no reason at present why the law should compel banks to hold Dominion notes. As these are practically gold certificates, the only apparent effect of the requirement, as banking operations enlarge, is to compel the Dominion government to increase its issue of notes and guard an increasing amount of gold coin. If the notes were mere credit instruments, their issue would be equivalent to an involuntary government loan and the requirement that they shall constitute 40 per cent of banking reserves would insure the permanence of the issue and save finance ministers from ever being worried over calls

[a] The bank act uses the word "reserve" in two senses. Section 59 provides that a bank shall not pay a dividend at a rate higher than 8 per cent per annum unless its "rest or reserve fund" is equal to at least 30 per cent of its paid-up capital. The reference here is to what in the United States is called the "surplus." In section 60 the act mentions "cash reserves," meaning the amount of legal-tender money held by the banks. This is its ordinary use among bankers in Canada as well as in the United States.

for their redemption. Since all notes in excess of $30,000,000 are secured by a deposit of gold in the Dominion treasury, their issue in no way increases the revenues of the finance department. The 40 per cent requirement, as a matter of fact, is entirely unnecessary; the notes, being in large denominations, are preferred by bankers to gold and would be utilized by them even though the law did not require it.

To American bankers, trained under the national bank act, the failure of the Canadian law to prescribe a minimum reserve undoubtedly seems a dangerous oversight. To many these questions will doubtless arise: What is to prevent a Canadian bank from assuming liabilities in excess of its redemption capacity? How, indeed, does the Canadian banker know whether or no he is carrying a sufficient reserve? Does not the failure of the law to require a minimum reserve encourage the development of speculative banking and a perilous expansion of credit on an inadequate basis of coin?

In Canada neither among the bankers nor in business circles are questions of this sort ever raised. Canadian bankers and many business men know a good deal about the national banking system of the United States, but they do not hold it in high esteem. On the contrary, they express surprise that a resourceful and intelligent people should have been content for so many years with a banking system so cumbersome and irrational. In their opinion, a law which fixes a minimum reserve against deposits and forbids the issue of bank notes, except on the deposit of government bonds, makes safe and sound banking absolutely impossible.

AMOUNT OF THE RESERVE FIXED BY EACH BANK.

It must not be supposed that the Canadian banks do not carry adequate reserves. On the contrary, every bank manager gives to this subject daily and most conscientious thought. To the Canadian banker the word "reserve" means a fund immediately available for the liquidation of liabilities. How much this fund ought to be depends altogether upon the amount and character of the liabilities to be protected. Theoretically, with respect to its time deposits, a Canadian bank is in the position of a savings bank and in order to be safe need not keep on hand for the liquidation of such deposits a very large amount of cash, but may rely upon investment securities to furnish whatever funds may be needed to satisfy unexpected calls from depositors. Practically, however, the Canadian bankers do not avail themselves of the privilege afforded by the law. All do not permit time depositors to check upon their accounts, but they do pay them on demand, and no Canadian bank would like to have it rumored that any of its depositors had ever had the slightest difficulty in obtaining funds when he wanted them. Apparently, therefore, all the deposits of a Canadian bank belong in the same class and are equally liable to become immediate claims upon the bank. As a matter of fact, however, this is not the case. The time depositor receives interest at the rate of 3 per cent under conditions which will cause him loss if he reduces his balance except on definite dates. A bank manager has learned by long experience when withdrawals of time deposits are to be

expected and to what extent he can depend upon fresh deposits as an offset.

A Canadian bank manager, having before him the amount of time deposits and demand deposits, respectively, knowing the probable future needs of the various depositors, being in constant touch with branch managers both by wire and by letter, and having back of him information born of many years' experience, easily determines how much his bank's reserve ought to be in order to assure its safety. The law neither helps nor hinders him; it simply requires that the bank shall satisfy the demands of depositors in accordance with the terms of the contract and that it shall redeem its notes on demand. The public by force of custom expects a bank to do a little more than the law requires, for its credit is bound to suffer if it take advantage of its legal privilege to delay payment upon time deposits. The manager is a hired man, sworn to do his utmost to protect the credit of the bank, trained for many years in its service, familiar with its history and its policy, anxious to guard his own reputation and character against criticism. Under these circumstances it would be remarkable if he did not fix the amount of his bank's reserve nearer the ideal figure—if an ideal banking reserve is possible—than could possibly be done by a body of lawmakers or of any other men outside the bank.

RESERVE COMPOSED OF FOUR ELEMENTS.

A Canadian banker thinks of a bank reserve as comprising four different kinds of assets: (1) Cash on hand, (2) cash balances in other banks, (3) call loans, and (4) securities.

Strictly speaking, "cash reserve" means only the first, but a banker usually has in mind both the first and second when speaking of his "cash reserve." He keeps on hand a supply of cash, either gold or Dominion notes, more than ample for the settlement of daily balances at clearing houses. The counter demand for cash he knows by experience can be met almost entirely by the use of the bank's own notes. In order to be prepared for any emergency that may arise, such as a panic in Europe or in the United States, the failure of a large customer, the suspension of a bank, an unexpectedly adverse balance of trade, any of which events might cause a demand for gold for export, he keeps some money on deposit in banks outside of Canada, lends some on call in New York City, and invests some in securities easily marketed. All these funds are thought of as part of the "reserve."

Although the law is silent on the subject, there is a tacit understanding or agreement among the banks that in ordinary times the cash assets of a bank ought to equal 15 per cent of its liabilities and that at least 8 per cent should be in cash on hand, the remaining 7 per cent being in balances due from other banks.

From the American point of view the Canadian banks carry a very small amount of cash. For example, on January 1, 1906, it amounted to only $61,000,000, whereas the net liabilities, notes as well as all deposits being included, amounted to $610,000,000, the ratio of the cash on hand being only about 10 per cent. In November of the same year the cash on hand stood at $75,000,000

and the net liabilities at $705,000,000, the ratio of cash to liabilities being still only a little over 10 per cent.

For many years the cash-on-hand reserve of the Canadian banks has averaged between 10 and 12 per cent of the net liabilities. Some banks constantly keep on hand a higher ratio, and others a lower. The ratio varies with the same bank at different times. At one time a bank may feel abundantly protected with a cash reserve of 9 per cent; at another time its managers may see occasion for holding a larger amount of cash. Again a period of business depression, by lessening the demand for money, may cause cash reserves to increase more rapidly than satisfactory investment can be found in call loans or securities. This situation arose in 1908, when the cash reserve increased from $83,000,000 July 31 to $97,000,000 December 31. On July 31 of that year deposits were reported at only $568,000,000. By December 31 they had increased to $640,000,000. During these months the ratio of cash to net liabilities exceeded 12 per cent, and in the case of many banks was much larger than was necessary. As a result the banks added to their credit balances in banks and agencies outside of Canada, thus getting a low rate of interest on part of their surplus funds and increased their call loans in New York.

CALL LOANS IN NEW YORK CITY.

New York City is the favorite call loan market, and several Canadian banks find it profitable to maintain branches or agencies there. In the eyes of a Canadian

banker a call loan payable in New York City and secured by high-class collateral, is practically equivalent to cash on hand. In normal times he can convert the loans into money within twenty-four hours, adding to his cash on hand either by the sale of New York exchange or by an importation of gold. If times are panicky in New York and stock market prices are tumbling, the Canadian banker is among the first to get rid of all loans based on securities about which there is the slightest question. If the situation gets so bad that the New York banks decline to ship gold, as they did in 1907, the Canadian banks utilize their New York balances for the purchase of sterling bills and so transfer their accounts from New York to London, importing from Europe whatever gold they need.

The call loans in Canada the bankers do not rely upon as in any way equivalent to or as a substitute for a cash reserve. Call loans in Canada are really not payable on demand. The securities put up as collateral can not be quickly marketed without a sacrifice and bankers know very well that they can not rely on such loans as a means for increasing their cash in an emergency. Even though this were not the case, these loans could not be reckoned as a source of strength to the Canadian banking situation, for the payment of the domestic call loans would not add a dollar to the country's cash on hand. Its only effect, as events have often illustrated in a parallel situation in New York City, would be a reduction of bank deposits.

INVESTMENT SECURITIES.

In their choice of investment securities the banks are not hampered by the law. They may purchase not only government and provincial bonds, but also the stocks and bonds of both Canadian cities and cities of foreign countries, and the stocks and bonds of domestic and foreign railways and industrial corporations. On January 1, 1907, the Canadian banks held securities as follows: Dominion and provincial government securities, $10,300,000; municipal securities, $20,000,000; railway and other bonds and stocks, $46,000,000, making a total of about $76,000,000. The fluctuations in the amount of total securities held are not great or frequent. When the banks need a larger supply of cash, they prefer, as a rule, to reduce their call loans in New York rather than to sell securities. During the three years 1906–1908 the total amount of securities held by the banks ranged from $63,000,000 in March, 1906, to $74,000,000 in December, 1908. During eighteen consecutive months of that period the amount varied by only $1,000,000.

Bankers do not place much reliance upon securities as a part of the reserve. These constitute a sort of auxiliary reserve, on which the banks expect never to be forced to lean. But credit balances and call loans outside of Canada are "cash" to most Canadian bankers and are quite commonly included in what they call their cash reserve.

Some of the banks in calculating their reserve make a distinction between demand and time deposits, figuring that the time deposits are protected by the cash on hand

and the time deposits by credit balances and call loans outside of Canada. The manager of one of the largest and most conservative banks said to the writer:

"We aim always to have on hand a cash reserve equal to 33⅓ per cent of the demand liabilities. We carry also a reserve of about 25 per cent of the time deposits in the form of funds in New York and London, either balances in banks or call loans. We consider this a kind of secondary reserve."

Their call loans in New York subject the banks to considerable criticism. Some people assume that the money loaned in New York rightly belongs to Canadian industries, and that it would be loaned in Canada if only their bankers were not so eager to make "easy" money in Wall street. This criticism betrays ignorance of the nature of the Canadian banking reserve. If either the law or public opinion should prevent the banks from lending money in Wall street, Canadian borrowers would be no better off than now. The banks merely would be obliged to carry in their own vaults the money they now lend in New York. As their earnings would be less than now, quite possibly their equipment and facilities would also be less and the Canadian borrower not so well cared for as now.

The statistics furnished by the banks in their monthly returns to the government are shown in the following tables, which give the totals for the months of February and November, 1909.

		February 28, 1909.	November 30, 1909.
	LIABILITIES.		
	Capital authorized	$142,466,000	$141,466,000
	Capital subscribed	$98,294,000	$98,960,000
	Capital paid up	$96,160,000	$98,046,000
	Amount of rest or reserve fund	$74,490,000	$77,868,000
	Rate per cent of last dividend		
1	Notes in circulation	$67,348,000	$86,391,000
2	Balance due to Dominion government after deducting advances for credits, pay lists, etc.	4,808,000	5,934,000
3	Balance due to Provincial governments	14,512,000	23,137,000
4	Deposits by the public payable on demand in Canada	192,969,000	264,286,000
5	Deposits by the public payable after notice or on a fixed day in Canada	441,391,000	493,254,000
6	Deposits elsewhere than in Canada	65,334,000	71,836,000
7	Loans from other banks in Canada secured, including bills rediscounted	5,347,000	4,520,000
8	Deposits made by and balances due to other banks in Canada	7,208,000	5,949,000
9	Balances due to agencies of the bank, or to other banks or agencies in the United Kingdom	2,607,000	2,739,000
10	Balances due to agencies of the bank or to other banks or agencies elsewhere than in Canada and the United Kingdom	3,337,000	3,559,000
11	Liabilities not included under foregoing heads	5,753,000	6,998,000
	Total liabilities	810,614,000	968,603,000
	ASSETS.		
1	Specie	26,807,000	31,798,000
2	Dominion notes	67,270,000	71,511,000
3	Deposits with Dominion government for security of note circulation	4,051,000	4,575,000
4	Notes and checks on other banks	25,346,000	43,609,000
5	Loans to other banks in Canada, secured, including bills rediscounted	5,108,000	4,421,000
6	Deposits made with and balances due from other banks in Canada	10,417,000	10,120,000
7	Balances due from agencies of the bank, or from other banks or agencies in the United Kingdom	10,523,000	18,078,000
8	Balances due from agencies of the bank, or from other banks or agencies elsewhere than in Canada and the United Kingdom	25,950,000	25,624,000

		February 28, 1909.	November 30, 1909.
	ASSETS—continued.		
9	Dominion and Provincial government securities	$10,240,000	$12,840,000
10	Canadian municipal securities, and British or foreign or colonial public securities other than Canadian	20,590,000	22,038,000
11	Railways and other bonds, debentures, and stocks	49,349,000	49,916,000
12	Call and short loans on stocks and bonds in Canada	47,555,000	57,876,000
13	Call and short loans elsewhere than in Canada	101,444,000	134,837,000
14	Current loans in Canada	507,350,000	590,292,000
15	Current loans elsewhere than in Canada	35,055,000	35,358,000
16	Loans to the government of Canada	5,000,000	
17	Loans to Provincial governments	1,620,000	2,501,000
18	Overdue debts	7,893,000	7,037,000
19	Real estate other than bank premises	1,710,000	1,192,000
20	Mortgages on real estate sold by the bank	549,000	631,000
21	Bank premises	18,593,000	21,109,000
22	Other assets not included under the foregoing heads	7,920,000	10,502,000
	Total assets	990,340,000	1,155,865,000

It seems worth while to call attention to some of the items in these tables.

The item "Notes in circulation" was nearly $20,000,000 larger in November than in February. The increase was due to the crop-moving need for additional currency, and is an annual occurrence. During the next two months the amount declined $13,000,000.

The increase in deposits (liabilities Nos. 4 and 5) was due to the flow of money into Canada and to the great activity of trade and industry, which caused an expansion of "current loans" (assets No. 14). In other words, there was a gain in both cash and credit deposits.

"Loans from other banks in Canada" (liabilities No. 7) represent advances made to two banks in liquidation.

Items 7 and 8 under "assets" indicate that the credit balances in London increased $8,000,000, while those in New York were unchanged.

Call loans in Canada gained $10,000,000, while call loans outside of Canada—mostly in New York City—gained $33,000,000. On the other hand, in "current loans" there was practically no increase outside of Canada, but a gain of $83,000,000 in Canada. Such figures mean good times in Canada.

ADEQUACY OF THE RESERVE.

In figuring the total reserve carried by the banks the items 4, 5 and 6 under "Assets" can not be included, although each individual bank might properly count them as part of its reserve. They are credits with other banks in the system, and are not a source of strength to the system as a whole. As they are counterbalanced by an equal indebtedness within the system, the net liabilities to the public are obtained by deducting these three items from "total liabilities." Thus we find that the net liabilities in February were $769,740,000, and in November $910,453,000.

The ratio to net liabilities of each element of the reserve is shown in the table below:

	February 28.	November 30.
	Per cent.	*Per cent.*
Cash on hand	12.7	11.7
Credit balances in banks outside of Canada	4.7	4.8
Call loans outside of Canada	13.2	14.8
Securities	10.4	9.3
Total reserve	41.0	40.6

Leaving out of account the securities, which are the least liquid element, the reserve stood at 30.6 per cent in February and at 31.3 per cent in November. The adequacy and immediate availability of a reserve of this size and kind has been well proved by experience. Some critics hold that the supply of gold is too small and that a real crisis in Canada would shake the foundations of banking credit. The situation certainly does not warrant such pessimism. Canada's banking reserve, securities excepted, consists of gold and of assets that can be turned into gold within a day. To be sure, if Great Britain and the United States should both suspend specie payments, Canada would suffer as one of their financial dependencies, but its banking system would stand a credit storm better than theirs, for it would be able more quickly and efficiently to adopt measures of protection and relief.

The bankers know very well that they can not afford to count New York and London funds as being money on hand. Clearing-house balances are apt to vary greatly in certain seasons, and a bank must be prepared at all times for the unusual and unexpected. Hence the banks carry a much larger cash reserve than seems necessary in ordinary times.[a] It keeps them always prepared

[a] "On account of our large number of branches and the different conditions they encounter in the different sections of the country," said a general manager to the writer, "we have to carry a cash reserve that seems to the outsider larger than is necessary. For example, when notes go out rapidly in a place like Winnipeg, they soon come back and have to be redeemed in gold, and actual cash is required at the western redemption points. It requires constant vigilance to keep proper cash balances. Balances in the Bank of England and in the banks of New York we can not count as cash at a redemption point. During the panic of 1907 we had nearly $2,000,000 in London and New York, but we could not really count them as part of

to meet emergency calls from redemption points and prevents local suspicion of their strength. It must be borne in mind that the public never comes in contact with any portion of the cash reserve. To most of a bank's customers its holdings of legal-tender money are a matter of indifference; so long as their checks and drafts are honored at the clearing house they are satisfied. But the banks must maintain their standing with one another. That is of first importance, and for that purpose money on call in New York and London is as good as money on hand.

Gold exports and imports are of small consequence in Canada. This is what one would naturally expect. As seasonal variations in the need for currency are taken care of by the elastic note circulation, no gold need be imported or exported on that account. Furthermore, when the banks increase their balances in New York and London, they do it by the remittance of exchange, not by the exportation of gold. The so-called balance of trade is against Canada, yet sterling bills are fairly plentiful as a result of the sale of Canadian securities in England. The output of

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our cash reserve, for we could not have imported the gold without having caused foreign complications. The knowledge that we had the gold there did us practically as much good as to have had it here. We seldom import gold for our own use or merely for the profit of the transaction. Despite the fact that New York fell down during 1907, we should have had a pretty serious time if we had not had some money loaned out in New York before that panic. We knew that we could get the actual money at any time by selling sterling exchange. In fact, all our money loaned in London and New York is a kind of secondary reserve."

CHART V.—NET LIABILITIES AND TOTAL RESERVE, 1906–1909.

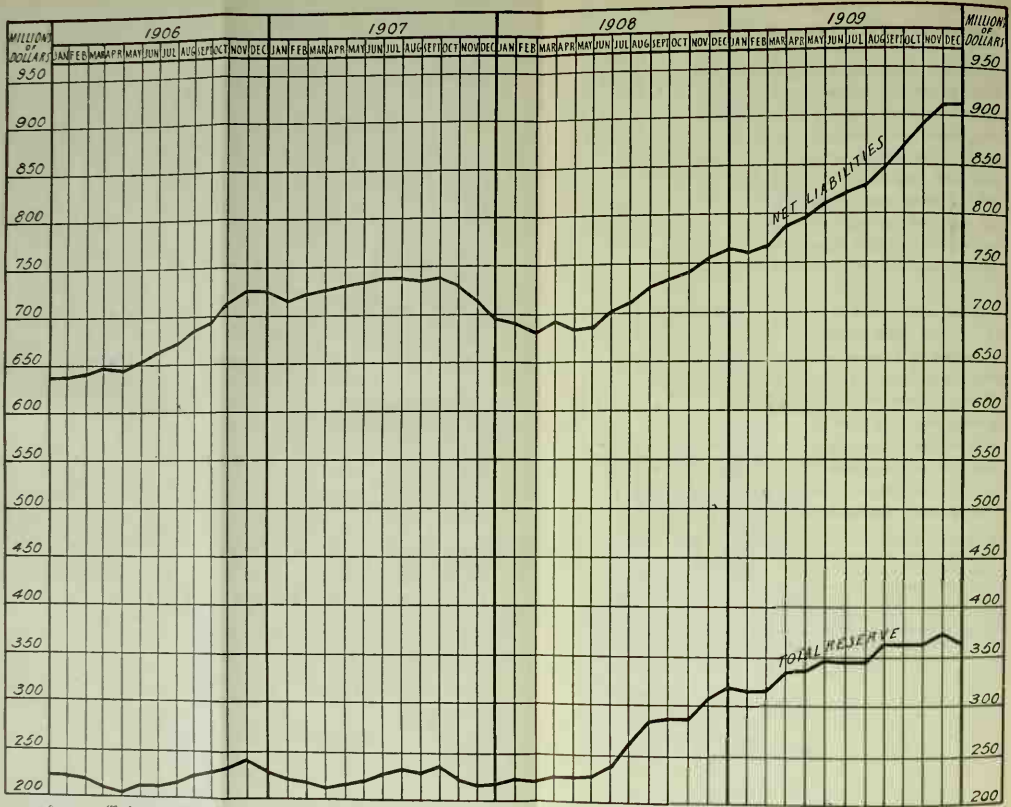
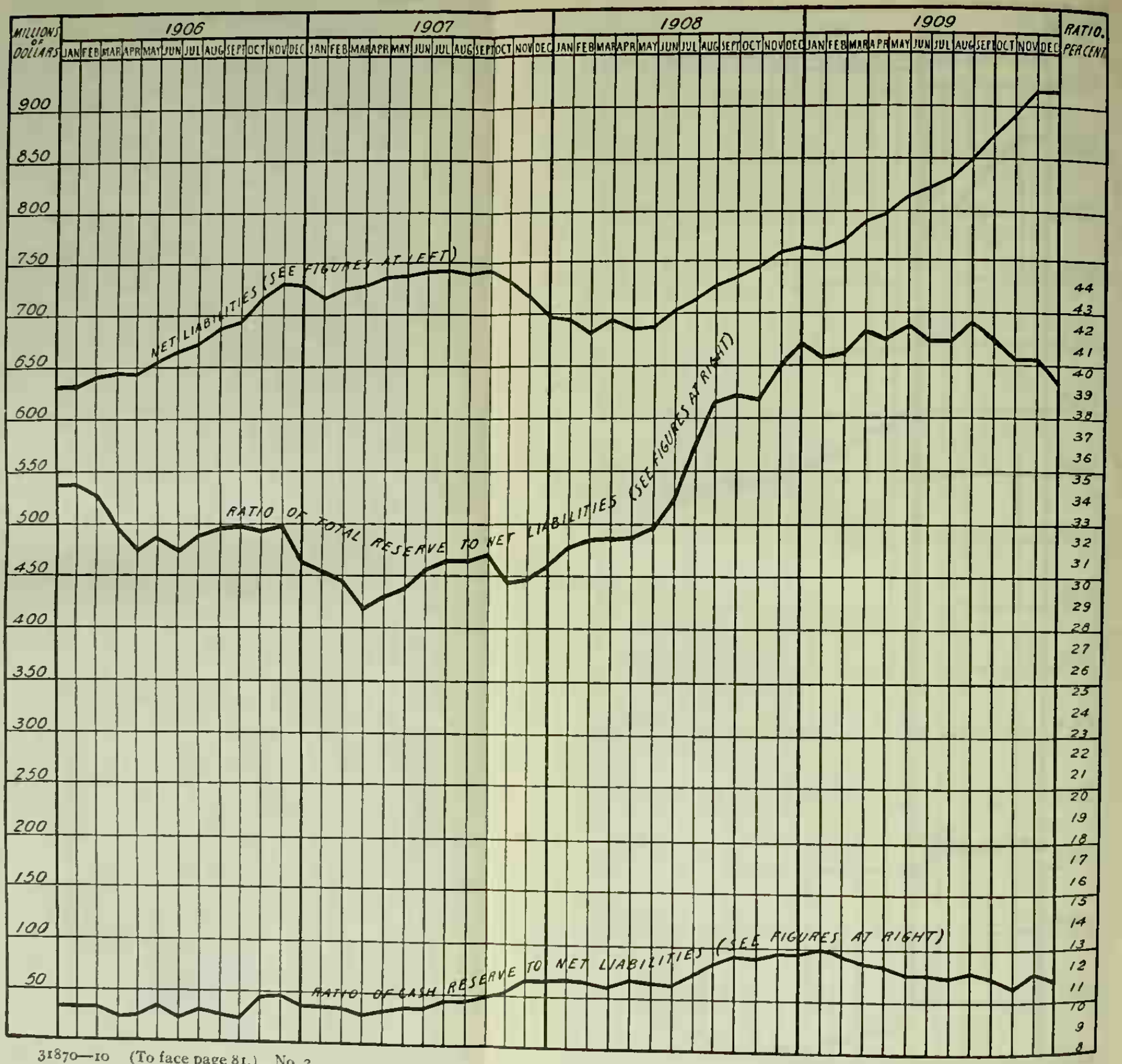


CHART VI.—RATIO OF TOTAL RESERVE AND OF CASH RESERVE TO NET LIABILITIES, 1906–1909.



Canada's own mines is more than sufficient to furnish the annual increment in the banking reserve.[a]

FLUCTUATIONS OF RESERVE, 1906–1909.

Charts V and VI (on the opposite page) show the fluctuations of the reserve during the four years 1906–1909; also changes in the amount of net liabilities. It will be noted that as a rule the total reserve (Chart V) moved up and down with changes in net liabilities, increasing greatly as the liabilities grew after the middle of 1908. Chart VI shows that the ratio of reserves to liabilities rose rapidly during the last half of 1908, when business was quiet and funds were accumulating. The ratio was nearly constant throughout 1909, but showed a downward tendency toward the end of the year, on account, doubtless, of renewed business activity in Canada.

By reference to Chart II (see page 48) the reader will note that during these three years there were great monthly fluctuations in the item "call loans" elsewhere, and a remarkable increase in 1908 and 1909. The gain in call loans in the spring and summer of 1907 doubtless reflected the Canadian bankers' desire to take advantage of the high rates of interest current in New York City. At the same time the Canadian banks were reducing their current loans in Canada, as is shown graphically on Chart I (page 48). The sharp decline in call loans in September and October,

[a] The banks quote sterling exchange in the terms of the old par of exchange, according to which the sovereign was worth, in Spanish dollars, $\$4.44^{1}/_{9}$. The present par ($4.8665) is about 9½ per cent above the "old par." There is some ground for suspicion that the Canadian banks preserve the antiquated par because a sixteenth added to 9½ per cent means a bigger profit than when added to $4.8665.

1907, was probably due to the desire of Canadian banks to increase their cash holdings, coupled with a rather well-founded distrust of the New York situation. After the October currency panic in New York the foreign call loans of the Canadian banks show a steady increase. They were at the lowest point in November, 1907, being then $41,000,000. By December, 1908, they had risen to $95,000,000. During the same period the cash reserve advanced from $81,000,000 to $97,000,000. This great increase in the cash and secondary reserve was due to the quietude in Canadian trade and industry as a result of the panic of 1907. Current loans in Canada declined from $580,000,000 in October, 1907, to $512,000,000 in December, 1908. (Chart I, p. 48.) Canadian banks were suffering from a glut of idle money. Their net liabilities during the last six months of 1908 increased from $700,000,000 to $760,000,000, and their cash reserve from $79,000,000 to $97,000,000. Here was a gain of $72,000,000 in deposits and of $18,000,000 in the cash reserve. As the current loans in Canada during this period were steadily growing less, having declined $50,000,000 during 1908, it is evident that the gain in deposits must have been accompanied by an increase in the cash resources of the bank and that the only available outlet for this surplus was the call-loan market in New York City and elsewhere. As a result of these operations there was, of course, a considerable gain in both the cash reserve and in the secondary reserve in the latter part of 1908. The ratio of cash reserve advanced from 11 per cent in the beginning of the year to 13 per cent at the close. The total reserve

rose from 31 per cent at the beginning of the year to 41 per cent at the end. These figures mean a very easy money market in Canada, too large a proportion of banking resources being in cash and call loans. The banks would gladly have reduced their call loans in New York City during these dull months in 1908 if they could have found profitable use for the money in Canada.

Chapter VII.

OPERATION OF THE SYSTEM.

The 7,500,000 people living in Canada are engaged in gainful pursuits very much like those which give support to the inhabitants of the United States. Agriculture, lumbering, mining, and fisheries are the most important industries, but manufacturing, stimulated by a moderately protective tariff, is making rapid progress. Capital at the rate of $200,000,000 a year is coming into the Dominion from England and Scotland. From the United States are coming both money and men at such a rate that the western provinces are almost "American." Ontario is English and Scotch in ideals and customs. In Montreal and Quebec the population is largely of French descent. The population of the Dominion as a whole is intelligent, thrifty, and law-abiding, and nearly every Canadian is convinced that his country is the best on earth to work and live in, and that the development of its wonderful resources in the very near future is bound to astonish the world.

Great as has been the growth of Canada's population and wealth in the last ten years, the chartered banks have more than kept pace with it. The 36 banks in existence in 1900 had 700 branches, or one office for every 7,500 people. In 1909 the 29 banks in operation had over 2,100 branches, or one for every 3,600 inhabitants. The average of deposits per branch has declined from $453,000 in 1900 to

$336,000 in 1908. The banks maintain 50 branches outside of Canada—16 in the United States, 3 in England, 5 in New Foundland, 1 in Mexico, 24 in the West Indies, and 1 in Paris.[a] Only a few of the branches in the United States are permitted to receive deposits under the laws of the States in which they are located. The branches in New York City are mainly concerned in foreign exchange transactions and call loans.

OLD BANKS GET THE NEW BUSINESS.

The decline in the number of banks from 39 to 29 during the last ten years has been in part the result of failures and in part the result of consolidations. Five banks have either failed or gone into liquidation since 1900. Three of them were institutions having small deposits and their failure was of little consequence. Two, the Sovereign Bank and the Bank of Ontario, were fairly large insti-

[a] Of these 50 branches 15 are offices of the Royal Bank of Canada, 7 of the Canadian Bank of Commerce, 13 of the Bank of Nova Scotia, and 7 of the Bank of Montreal.

The Monetary Times of Toronto, in its issue of February 26, 1910, puts the number of branches then in existence at 2,214, distributed as follows:

Newfoundland	6
Elsewhere	44
Ontario	962
Quebec	342
Nova Scotia	106
New Brunswick	67
Prince Edward Island	16
Manitoba	175
Alberta	156
Saskatchewan	207
British Columbia	130
Yukon	3
	2,214

tutions, one having 30 branches, the other 70. The liquidation of these was mainly due to the oversanguine and speculative temperaments of their chief managers, as is explained in the next chapter.

Eight banks have come into existence since 1900, but one of these, the Sovereign, is in liquidation, and two of the others, the Northern and the Crown, have been amalgamated. Some critics insist that the difficulties in the way of establishing a new bank are so great that the existing banks practically possess a monopoly. This criticism, however, is not altogether justifiable. A dozen or more new banks have been chartered since 1890, and there is no evidence whatever that Parliament has refused a charter to any set of deserving incorporators. The dividends of the chartered banks range from 4 to 13 per cent,[a] most of them are accumulating large rest or surplus funds, and their stocks are selling at high prices. But other business enterprises in Canada are yielding higher rates of profit, and the amount of capital which men are willing to invest in a new bank is very limited. The real reason why more banks are not created in Canada does not appear to lie in the legal restrictions, but rather in the difficulty of finding the necessary amount of capital. The banking field is so well covered by existing institutions, and competition is so keen among them, that the prospects of a new bank are not as alluring as those of many other enterprises which invite capital. The population and business in Canada

[a] According to Doctor Breckenridge the average rate of dividend increased from 7.59 per cent in 1900 to 8.53 per cent in 1908; while the average per cent of dividend to total of capital paid up and rest has fallen from 5.01 to 4.81.

are increasing, however, at a rapid rate, and new banks will doubtless come into existence, although the old institutions, with their large capital and surplus, and with the unlimited right to establish branches, are in a position to expand their business indefinitely. Indeed, it is easier for the banks now in the field to get new capital than it is to get subscriptions to the stock of a new bank. Hence, while it is probable that new banks will be started from year to year, it is not likely that Canada, even when its population is four times the present figure, will have many more banks than it now has. The advantages of consolidation and the evils of unrestricted competition are realized in Canada as clearly as in the United States and have in the last decade caused a reduction in the number of banks from 39 to 29.

COMPETITION IS NOT LACKING.

In many respects banking competition is quite as active in Canada as it is in the United States. Apparently there are only two things which the banks do not like to do in order to attract business—lower the discount rate, or advance the rate paid on depositors' balances. There is no express agreement among the bankers on these points, but every banker knows that he would become persona non grata among his brethren if he should discount certain kinds of paper at less than 6 per cent, or pay his depositors on their monthly minimum balances more than 3 per cent per annum. In Montreal and Toronto large borrowers can get money at 5 per cent, but the average merchant and manufacturer must pay 6. In Winnipeg borrowers

can do almost as well, but farther west the usual rate is 7 per cent, and in some of the remoter districts merchants and farmers alike pay 8 per cent. Bankers do not believe in lowering the discount or interest rate unless they are compelled to do so in order to find a market for their funds.

Some of the older institutions would like to prevent competition from absorbing the minor profits which come from collections and transactions in exchange, but they are not entirely successful. The nominal or schedule charges for collections and exchange are frequently cut for the benefit of business men whose favor it is desired to propitiate.

In their efforts to get new business, to be the first to open a branch in a promising new community, or to keep their regular customers from being dissatisfied, there seems to be the keenest kind of competition. Few villages of 500 people can complain that their banking facilities are less than they deserve, and many of them, with barely enough business to pay the expenses of one branch, are supplied with two. The recent rapid increase in the number of branches has been caused by the great expansion of the West and by the competition among the more progressive and energetic general managers, each desiring that his bank shall be the first in a promising field, even though his enterprise lead him to establish branches which at first do not pay expenses. In a new mining camp the first bank, like the first saloon or the first boarding house, usually begins business in a tent. Some of the more conservative bank managers in Canada think that new branches are being started in excess of the country's

needs, but others are willing to take chances on the country's future and to charge considerable sums to the debit side of the profit and loss account in order to keep their institutions at the front in the great and developing West.[a] That mistakes are not infrequent is proved by the fact that in 1909 the banks, while they opened 267 new branches, abandoned 40 old ones. Of the 40 closed 30 were located in the Province of Ontario. Of the new

[a] "When a new country opens up," said a Toronto manager, "we often have to establish a branch on short notice, and we open up in any kind of quarters. At Cobalt, for instance, we cleared the snow off the ground, erected a tent, tacked up a sign, and the bank was ready for business. Supplies were rushed in and better quarters built as soon as possible. Our employees hold themselves ready to go anywhere on a moment's notice.

"Our branch bank buildings in the smaller towns are uniform in construction and equipment, and have sleeping quarters for two or three men above the banking room. The construction of these uniform buildings is so systematized that we can order a certain style building from our carpenters and they can cut and saw every piece and ship it ready to be put together. Then we have uniform equipment of bank fixtures, desks, etc., so when we order fittings for a certain style of building we know every article that is needed for its furnishings.

"In some sections of the country west of Winnipeg the branches commenced paying from the first day they were opened. At one small town the branch had $250,000 in deposits in an incredibly short time.

"We have plenty of promising locations for branches, but our greatest trouble in expanding is in finding competent managers."

"We have branches," said another manager, "in towns too small to afford a permanent office. They are kept open only two or three days a week. One manager with two junior clerks has charge of two or three such branches, dividing their time between them. We make it a point never to have a branch bank in charge of less than three men, on account of the protection they afford from without and within. Dishonesty is very rare. We do not carry any burglar insurance, as till money is all that is kept at the smaller branches, the reserve being kept at the more important points. Money can be quickly centered at any branch where there is a call for it. At least two men are expected to sleep on the premises of the permanent branches.

"Our system allows banks to be operated with profit in all towns of 500 population. In many towns of 200 inhabitants there are branch banks."

branches 72 were opened in Ontario and 40 in Quebec, two of the older Provinces, while in the west 13 were opened in Manitoba, 57 in Saskatchewan, 49 in Alberta, and 26 in British Columbia.

CLEARING HOUSES.

The law gives to the Canadian Bankers' Association the right to establish and regulate clearing houses. In 1909 clearing houses were in operation in fourteen cities. Total clearances for the last five years and for 1900 are given in the table below:

Clearing-house statistics.

[Expressed in thousands.]

Clearing house at—	1900.	1905.	1906.	1907.	1908.	1909.
Calgary	----------	----------	$41,771	$69,798	$64,815	$98,754
Edmonton	----------	----------	3,936	45,716	38,596	50,561
Halifax	$77,594	$98,251	91,552	93,587	90,232	95,278
Hamilton	40,262	68,367	78,480	88,104	72,329	84,803
London	----------	50,429	57,863	65,760	56,875	62,093
Montreal	734,941	1,324,314	1,533,596	1,555,737	1,467,315	1,866,649
Ottawa	----------	120,891	135,866	156,487	154,367	173,181
Quebec	70,707	86,794	92,934	107,460	111,812	118,803
Regina	----------	----------	----------	----------	----------	14,153
St. John	37,907	52,836	60,032	66,150	66,435	72,404
Toronto	513,697	1,047,490	1,219,125	1,228,905	1,166,902	1,437,700
Vancouver	46,161	88,460	132,606	191,734	183,083	287,529
Victoria	32,038	36,890	45,615	55,330	55,356	70,705
Winnipeg	106,956	369,868	504,585	596,667	614,111	770,649
Total	1,660,263	3,335,595	3,997,960	4,321,441	4,142,233	5,203,269

All the clearing houses are operated alike, the rules being made and approved by the Bankers' Association. The methods employed are very similar to those in use

in the United States. Balances are paid with Dominion notes that are negotiable only between banks, by draft on Montreal, and sometimes by draft on New York. Since bank notes as well as checks are always sent through the clearing house, the totals given above include notes as well as checks. The amounts of each are not separately reported or even recorded at the clearing houses.

BANKING IN DIFFERENT PROVINCES.

The clearing-house statistics possess special value in Canada for the reason that they constitute the only available data with respect to the growth of banking operations in the different provinces. The monthly bank statements give totals for the Dominion. That is all the law requires, and the banks do not give the public more information than they are obliged to. One can not find out, therefore, what proportion of the deposits belong to Ontario, Quebec, Manitoba, and other provinces, in what sections loans are expanding most rapidly, or what branches make the call loans. It is generally known that the eastern branches get heavy deposits and are creditors of the head office, and that the funds they collect are forwarded to the western branches, whose loans greatly exceed deposits. Bankers will admit that this transference of funds takes place, but there is considerable grumbling about it in the old communities of the East, and the bankers fear that a monthly or even annual publication of the facts would keep them perpetually in hot water. A glance at the above clearing-house statistics leaves no doubt as to the banking importance of the western Prov-

inces or as to the relative financial quietude of the East. Between 1900 and 1909 the total of Canada's bank clearings increased 227 per cent, but Halifax gained only 23 per cent, St. John only 90 per cent, and Quebec only 68 per cent. On the other hand, Toronto's clearings increased 179 per cent, Winnipeg's 600 per cent, and Vancouver's 524 per cent.

EASTERN PROVINCES HAVE SUFFERED.

This transference of funds from sluggish to active communities is the inevitable result of a system of branch banking and is the cause of the tendency of the rate of interest toward uniformity in all parts of Canada. Whatever may be said against a system of branch banks, there can be no question that it does bring about a more even distribution of capital in a country than is possible under a system of independent local banks. Canadian bank managers are anxious to put out their money where it is most wanted, for there they get the best possible rate of interest and obtain paper of the best quality. No matter where a manager's headquarters may be, he is most deeply concerned in three questions: (1) Where is idle money accumulating? (2) How can he best draw it into his bank? (3) In what parts of the Dominion is money most needed? In localities of both kinds he establishes branches; in the one the branches accumulate deposits often much in excess of their loans, in the others the loans exceed the deposits. Thus it happens that the savings of the Eastern Provinces, where the growth of industry and trade is slow and the demand for new capital is not

increasing, are sent westward and loaned out to merchants and manufacturers and farmers of the new territories. The people of the East supply the capital for the development of the West, though many of them perhaps are entirely ignorant of the useful purpose their savings are made to perform. In the western cities of Canada one hears no talk among business men about the scarcity of capital. A merchant or manufacturer in Manitoba gets the money he needs as easily as does a merchant or manufacturer in Toronto or Montreal.

Justifiable as the bank's policy is from a national point of view, one can not help believing that the branch banking system has really checked the development of business and industry in the maritime Provinces. If Canada during the last thirty years had depended, like the United States, upon independent local banks, there would have been a plethora of capital in the East, and Montreal, Quebec, and Halifax, like Boston, New York, and Philadelphia, would years ago have had 4 and 5 per cent money, while Winnipeg and other western cities, less populous than now, would still be paying 1 per cent a month. The relative cheapness of capital undoubtedly helped build up the prosperous industries of Massachusetts. The same cause operating in the maritime Provinces of Canada would doubtless have led to the establishment there of industries of which the people under existing conditions have not ventured to dream.

HOW THE CROP MOVEMENT IS FINANCED.

On account of the variety of industries in Canada, the demand upon bankers for money is fairly steady throughout the year. The heaviest pressure is felt in the fall months, when the great crops of the West are harvested and brought forward for export; and during these months the credit of the Canadian banks is always most extended, both the circulation and the deposits then being at the maximum. The movement of the crops causes an increase in the demand for loans and in the demand for currency. The additional demand for loans comes from the buyers of agricultural products and gives rise to a western movement of banking funds. Each buyer of grain or of cattle, at the beginning of the season, arranges with his bank for all the money that he expects to need. As a rule, he draws on his bank for funds with which to pay for the stock of grain he buys and forwards warehouse receipts and bills of lading as collateral security.

At the same time depositors are calling upon the banks for large sums of currency in denominations of $5, $10, and $20 to use in the agricultural districts in making payments to people who prefer cash to checks. In Canada, as in the United States, many farmers who are distant from towns have no checking bank account. When they pay off their hired men and settle their accounts at the village store, they do it with cash; and in Canada this cash always consists of bank notes. As a result, the circulation of Canadian banks invariably expands during the months of September, October, and November. By December an inward movement begins. As the bank

notes are paid to him by the farmers, the country storekeeper deposits them in the local branch of his bank, and this sends them at once to the nearest redemption center or clearing house. At the same time the checks paid out by the buyers of grain and stock are also pouring into the clearing houses and both checks and notes are cleared in the same fashion.

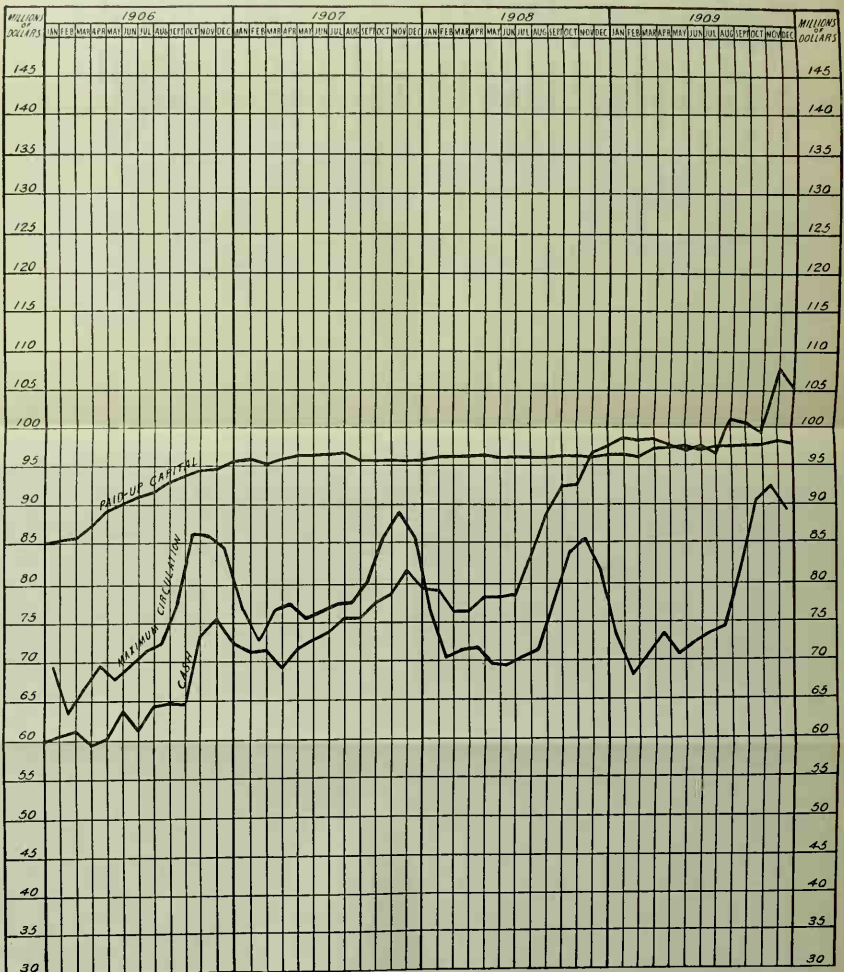
DOUBLE PULL ON THE BANKS.

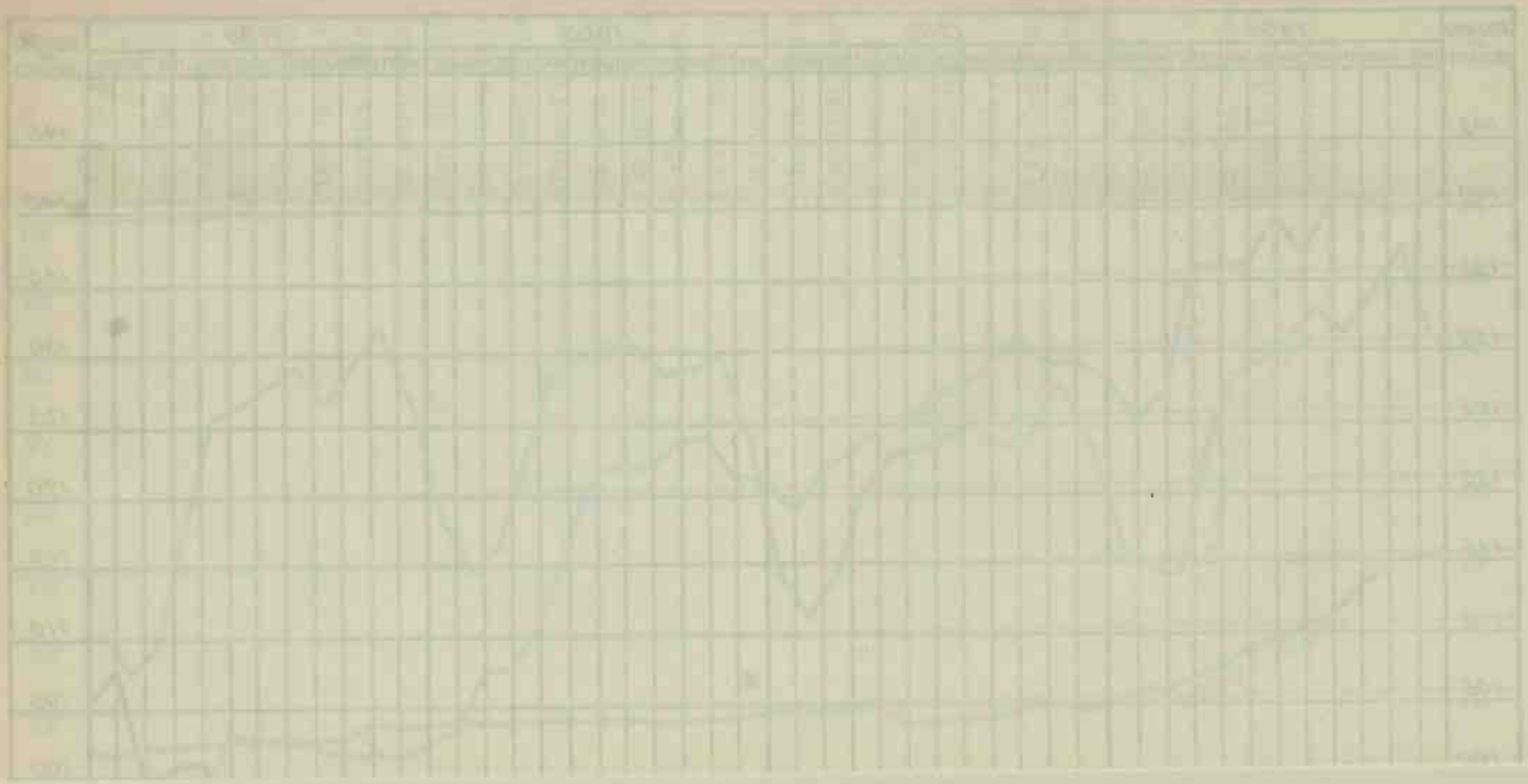
The banks stand this double drain on their resources—the increased demand for loans and for currency—without any inconvenience. They do not advance the rate of interest and apparently do not deny any of their regular customers. Ordinarily, as their liabilities increase in the fall on account of expanding deposits and note circulation, they reduce their call loans in New York City, and so add a few million to their cash reserve. In 1906, for example, the net liabilities of the Canadian banks rose from $635,000,000 September 1 to $705,000,000 November 1, an increase of $40,000,000. Their current loans in Canada during the same months rose from $515,000,000 to $550,000,000, a gain of $35,000,000. The note circulation that year began to increase in August and reached its highest point in October, rising from $72,000,000 to $86,000,000. By December 31 it had declined to $78,000,000. The banks began to increase their cash reserves on May 1 of that year, raising the total during the next four months from $59,000,000 to $65,000,000. During the month of September the cash reserve was increased from $65,000,000 to $74,000,000, a gain of $9,000,000 in one month. During October there was an

increase of $1,000,000. After November 1 the cash reserve declined. The increase of $9,000,000 during the month of September was evidently due to the bankers' desire to guard against their increasing liabilities and appears to have been brought about by a reduction in call loans in New York City and by the sale of securities. Merely by adding $10,000,000 to their holdings of money the banks were able to permit their demand deposits during the months of September, October, and November to increase $25,000,000, and their circulating notes about $12,000,000, making a total increase in their net liabilities of $37,000,000.

The conduct of the banks during the next two years—1907 and 1908—which were unusual in character, is discussed in the next chapter. In both these years, as the reader will see by a glance at Chart VII (page 96), the volume of notes in circulation varied in the usual manner, reaching the maximum in November, then declining to the minimum in February. The liquidation that everywhere followed the panic of October, 1907, causing a general reduction in bank deposits and bank loans, was quickly over in Canada. The year 1908 was a breathing spell in Canadian industry and finance, but the bank returns show that there was no lack of confidence in the banks and that the floating capital of the country had not been seriously impaired. The demand deposits, which declined throughout 1907, began to gain in February of 1908, and climbed steadily upward throughout the year. The time deposits held their own after February 1, but did not begin to increase until August 1. That these gains in deposits were mainly due to increasing cash receipts is indicated by the

CHART VII.—COMPARISON OF MAXIMUM CIRCULATION WITH CASH ON HAND AND WITH PAID-UP CAPITAL, 1906–1909.





fact that the current loans in Canada declined steadily throughout 1908, and by the steady augmentation of the cash reserve, which throughout both 1908 and 1909 exceeded at all times the amount of notes in circulation.

In 1908, although the maximum circulation was only $85,000,000, being $11,000,000 under the legal limit, seven banks took advantage of the amendment to the bank act and issued notes in excess of their paid-up capital, paying a tax on the excess at the rate of 5 per cent per annum. In 1909 the maximum circulation in November touched the highest point ever reached and thirteen banks issued notes in excess of their paid-up capital, the largest excess on any one day being $2,373,000. In 1908 the largest amount of "emergency" notes outstanding on any day was only $775,000.[a] As is pointed out in Chapter IX, if the banks since 1900 had properly increased the amount of their capital stock, instead of charging their undivided profits to the surplus or rest account, there would have been no necessity for "emergency" issues of notes

VARIATIONS IN THE CIRCULATION.

By referring to Chart II (see page 48) the reader will easily get an idea of the elasticity of the circulation. He will observe that the amount of notes outstanding invariably increases after September 1 and reaches its maxi-

[a] In 1908 the total daily excess amounted to $9,299,000 in October, $9,105,000 in November, and $705,826 in December. The largest one-day excess issued by all the banks was $723,000 in October, $775,000 in November, and $144,000 in December.

In 1909 the total daily excess was $12,500,000 in October, $26,300,000 in November, and $15,612,000 in December. The largest one-day excess by all the banks, $1,448,000 in October, $2,373,000 in November, and $1,600,000 in December.

mum in November, then declining sharply during January and February. With respect to these changes in the circulation two facts should be borne in mind by anyone wishing to understand the Canadian system.

First, the autumnal increase is not brought about by any effort on the part of the banks; it is beyond their control, and they could not prevent it if they wished to. Indeed, the note circulation of the Canadian banks is one liability they can not reduce or enlarge at will. They can stop the growth of deposits by refusing new accounts or by declining to make additional loans, and the people would have to submit; but the public's need for currency, small in the summer, large in the autumn, the banks must satisfy—the only alternative being suspension.

Second, the additional notes are not directly a source of profit to the banks. The notion that Canadian banks give notes to their borrowers and that the additional issues in the fall represent loans at 6 per cent, is a mistake. Canadian banks, like those in the United States, give deposit accounts to borrowers, and it is a matter of indifference to the Canadian banks whether their customers check out their accounts or call for notes. The fact that the banks can issue the notes as needed is directly an advantage to the public and hence indirectly beneficial to the banks, for it saves them from the necessity of calling loans in order to get the extra currency needed in the crop-moving season. By reference to Chart VII (page 96) the reader will see that the amount of legal-tender money in the banks, i. e., their cash reserve, tends to vary somewhat with the amount of notes in circulation, the two

being nearly equal; but he must not infer that the fluctuations in the cash reserve are due to changes in the volume of the circulation. The reserve is the protection for all the liabilities of the banks, and of these the deposits exceed the circulation nearly tenfold. The banks take pains to increase it in the fall, because then all their liabilities, deposits as well as notes, are certain to increase, and they wish to be fully prepared for the redemption of an unusually large amount of both checks and notes. As a rule, they add to the reserve in the fall by a slight reduction of their balances on deposit in foreign countries, especially in New York City, and thus are enabled to enlarge their current loans in Canada. If they were not permitted to issue notes, they would every fall have to import from New York a considerable amount of gold, and all the risk and expense involved in getting it would be borne by the Canadian people.

LARGE USE OF DEPOSIT CURRENCY.

It is sometimes assumed that a free and large use of bank notes tends to discourage the use of the check book and the growth of bank deposits. On the continent of Europe, for instance, where the notes of central banks supply all the currency the people need, the check book is comparatively little used. This fact is sometimes explained by the ease with which people can obtain bank notes for use in making all payments. Experience in Canada makes one doubt the validity of this explanation. The check book is almost as popular there as in the United States, and would probably be used still more than

it is if the banks would adopt a policy as liberal as that in vogue in the United States. The Canadian banks not only charge exchange on checks and drafts payable in other localities, but even charge exchange on checks drawn on their own branches. The charge is a small one and probably has no great effect one way or the other, yet it certainly does not encourage the increase of deposits or the use of the check book. When a Canadian starts on a journey it is in a small way economical for him to fill his wallet with all the cash he expects to need. The notes of his bank will be taken at par everywhere throughout the country; his checks, even though he presents them at a branch of his bank, will be cashed only at a discount.[a]

Notwithstanding this discrimination against the check, the deposits of Canadian banks have grown much more rapidly than the note circulation and the inference is that the volume of deposit currency has increased at the same rapid pace. Since 1900 the volume of notes has increased from $50,758,000 to $81,326,000 in 1909, a gain of 60 per cent. During the same period the deposits by the public increased from $297,915,000 to $760,350,000, a gain of 155 per cent, and the total clearings in the same period increased 227 per cent. These figures prove that business men in Canada appreciate the advantages of the check as a means of payment, and that the proportion of business transactions settled by it is steadily increasing.

[a] Competition forces the banks to grant favors to large and regular customers which are denied to the small and occasional customer, and the free collection of checks and drafts upon Canadian banks, as well as upon some cities in the United States, is one of the concessions which a valued customer usually obtains.

INVESTMENT CAPITAL WELL DISTRIBUTED.

The conditions which bring about the even or equitable distribution of business capital have a similar effect upon the flow of investment funds. A western city in Canada can obtain money for the construction of a street railway or the installation of an electric-light plant almost as cheaply and as readily as can an eastern city. Indeed, the stocks and bonds of new enterprises in all Canadian towns and cities obtain capital strictly on their merits. If two towns or cities—one in the west, the other in the east—need capital for enterprises containing inherently equally good assurance of income and safety, the one is likely to fare as well as the other in the loan market. This does not mean, of course, that all municipal and industrial enterprises in Canada borrow funds at the same rate of interest, nor that the rate of interest paid in the west is uniformly as low as that paid in the east, for the prospects of enterprises vary in Canada as in other countries, and the future of every new community is more or less uncertain.

Taking into account the uncertainties that necessarily attach to the development of enterprises in new localities, which add to the element of risk always involved in the loaning of money, it may fairly be said that Canada has only one money market and only one rate of interest. In the United States great masses of loanable capital accumulate in the cities of the east and can be drawn into the country only by positive assurance of an extraordinary rate of interest. In Canada one finds no such accumulation of capital in a few cities and no such reluctance to loan it out at distant points. Banks in Montreal or Toronto lend

with equal freedom in both the west and in the east, and their managers have equal familiarity with the needs and credit of both sections. The fact that a bank's head office is in one of these cities is no evidence whatever that its main interests are there. Nor if the head office is in a smaller city, such as Sherbrook or Hamilton, does it follow that it is a second-rate institution with local interests only. The real nature of the Canadian system can not be understood by anyone who fails to grasp the fact that the Canadian banks are in no sense local institutions. With two or three unimportant exceptions they are national institutions, and their managers are on the keen lookout for any chance to increase their business in any community between the Atlantic and Pacific oceans.

I have said that if we make allowance for the element of risk involved, the rate of interest is practically the same throughout the Dominion. Perhaps we should also take into account the element of expense. As a matter of fact, the rate of interest is about 1 per cent higher in the west than in the east. Borrowers in country districts also pay a higher rate than those living in the cities. Prime commercial paper can be discounted in Montreal at 5 per cent, but the bulk of discounts is at 6 per cent. In Winnipeg the prevailing rate on commercial paper is 6 per cent, but in the new towns west of Winnipeg the rate upon all but the choicest kind of paper is 7 per cent. The rate is higher in the new localities and in the country districts, not because the paper is necessarily poorer, but because the maintenance of branches in these new localities, and in all small towns, is more expensive per dollar of business

done than in the larger cities. If the people in a newly settled community were not willing and able to pay 7 per cent for money, the banks could not afford to establish branches among them as quickly as they do. If a bank has the enterprise to open a branch in a mining camp, which can be reached only by a long journey through the wilderness, it is naturally to be expected that it will charge for its services a price that will compensate for the risk and expense involved. In this respect banks, as dealers in money and credit, are like dealers in provisions and general merchandise. They charge high prices because their risks and expenses are high, not because they have an assured monopoly, nor because they handle a commodity which can not stand long or rough journeys.

Chapter VIII.

THE SYSTEM IN TIME OF STRESS.

Since the present system of banking was perfected in 1890, Canada has had no banking panic. She has suffered from periods of depression and hard times, caused either by short crops or by the failure of outside markets to absorb her produce at satisfactory prices, but never from scarcity of currency, from runs upon banks, from business failures, or from the inability of banks to meet their obligations. It is impossible to escape the conclusion that the credit for Canada's immunity from panic and financial distress is largely due to the character of her banking system.

No country can expect to be free from periods of dullness, no matter how perfect its banking system. International relations in trade and finance are so close that all countries suffer from the mistakes made by any one. Canada has depended very much upon English capital. She is relatively a large consumer of the products of the United States and has many an enterprise which owes its inception to American initiative. Hard times in England or in the United States must inevitably affect Canadian business. She is borrowing from England as this country did a century ago. Her credit system rests upon the gold reserves of London and New York. Under these circumstances, when one recalls how the credit and financial system of England and the United States have been shaken during the last twenty years, it is remarkable that Canada has escaped serious damage.

STRONG BECAUSE ELASTIC.

Canada's banking system contains two features that give it great strength under the threat of panic or crises. One is the elasticity of the note circulation, the other the solidarity or unity of the system. The reason why Canada has never suffered from a currency panic lies on the surface. The banks always have cash enough to meet the demands of their depositors. Instead of being in the position of their brethren across the border, that is, anxious to conserve their cash, they welcome any legitimate opportunity for the increase of their circulation. Except for a few weeks during the panic period of 1907, when practically all the banks of the United States had suspended cash payments, the Canadian banks have always had currency on hand in excess of their customers' needs. This currency consisted of their own notes. To their customers the bank notes are perfectly good money. Even though people got suspicious of the solvency of a Canadian bank, its notes would not be in disfavor.

Furthermore, when Canadian banks satisfy their customers' demands for cash, their resources are unimpaired. They are not obliged, as are the banks of the United States, to call loans in order to make good their cash reserve. With the public their notes have all the efficiency of gold itself, and the fact that they are paid out so willingly by the bankers, the supply as a rule seeming inexhaustible, prevents anything like a panic starting among the people.

The elasticity of the note issue, however, is not the most important factor contributing to the peace and security of the Canadian financial system. It must be regarded,

indeed, as an essential factor, for without it the banks would be unable to maintain equilibrium without resorting to methods that at times would be perilous. If in any emergency they were obliged to raise their rates of interest and to seek to increase their resources by the reduction of loans, it is doubtful if Canada, despite the strength of its banking system in other respects, could escape from the losses caused by panic.

SOLIDARITY OR UNITY OF THE SYSTEM.

The other feature making for financial ease in Canada, namely, the solidarity or unity of the banking system, is not easy to describe. It is a growth, a situation, rather than a creation of the law. When one has in view the protection of Canada's business and financial welfare, it is impossible not to regard the 29 chartered banks, with their 2,200 branches, as a single institution. As lenders of money they are independent units. For that matter, the branch of each bank has a great deal of independence. All are independently seeking for deposits. Each branch is seeking to make the largest possible profit, and its manager is encouraging to the utmost the enterprises in his locality, for on the growth of the business he does depends his favor at headquarters. Nevertheless, from a national point of view, despite the competition among the banks and their branches, there is considerable reason for regarding the 29 chartered banks of Canada as one institution.

Consider, for instance, the following facts:

1. Over 50 per cent of the banking business in Canada is done by 6 banks. One of these, the Bank of Montreal, has assets exceeding 20 per cent of the total. Another,

the Bank of Commerce, with head office at Toronto, has resources equal to 13 per cent of the total.

2. The Bank of Montreal is the depositary of most of the government funds and among the people is commonly spoken of as the government bank.

3. The Bankers' Association, an organization created by law, is a medium through which the best banking opinion finds authoritative expression. Through this association the banks keep advised of all pending legislation in any way affecting banking interests.

4. Bank managers are trained experts and each one has the expert's regard for a man who has had a wider experience or a better training than himself. As a result, no manager will venture far upon a policy which is regarded by his competitors as dangerous.

5. All the banks are equally interested in the unbroken prosperity of the country. The managers of the six largest banks, each having charge of over a hundred branches, are particularly watchful. They realize that speculative excesses in any part of the country will bring loss to them and must be discouraged.

6. On account of this mutual interdependence of the banks, no bank in Canada can hope to achieve success by striking out upon an absolutely independent policy, if such conduct is likely to meet with the disapproval of the banking fraternity. The business public, from which a new bank must get its support, has confidence in the management and judgment of the established institutions. A depositor may feel that he ought to get more than 3 per cent interest on his balance. He may complain that his bank does not give him credit enough, or that it is not

liberal enough in its collections. Nevertheless he would be reluctant to give his account to a new institution or to any institution, whether old or new, if it were managed by men not in good standing with the leading bankers.

7. In their insistence on the rule that a man shall borrow from only one bank the banks have done more than appears on the surface to make their system a unit. If a merchant is refused credit at one bank, he finds it practically impossible to get help from any other. This rule certainly makes the 29 banks of the Dominion, from the borrower's point of view, a single institution.

8. There is practical unanimity of opinion among bankers with regard to business conditions and the outlook. The managers of Canadian banks get their information with regard to the country's condition from the managers of branches. Since all know what is going on in every part of the country, it is not remarkable that all usually are very much in agreement, for the sources of information of all are practically the same.[a] As a result, Canada has a "banker's opinion" with regard to the business situation, as distinguished from the "opinions of bankers" in the United States. In the latter country the bankers in the West are often in disagreement with the bankers in the East, and the eastern bankers are fre-

[a] During the writer's stay in Canada in April, 1909, he talked with bankers in Montreal, Ottawa, Toronto, and Winnipeg. Everywhere he raised practically the same topics of conversation, and everywhere got practically the same answers. The managers at the head offices get daily reports and letters from their branch managers, and the head offices in their turn send out information to the branches. As a result the men in the banking business in Canada know more about the whole country than any other set of men. The files of one of the larger banks probably contain more valuable and more accurate information about the current events in Canada than can be found in the files of any newspaper.

quently in considerable ignorance of the conditions and events which are shaping the opinions of their western brethren. In Canada, with reference to questions of fact or actual conditions, one finds very seldom any difference of opinion among Canadian bankers. If there is excessive speculation in any part of the country, if a certain industry is suffering because of tariff changes in Europe, or because of a scarcity of raw materials, or if capital is being employed in an industry in amounts not warranted by the demand, or if there is the prospect of a light yield of any agricultural product, the bankers are among the first to get the information, and all of them have it.

IMPORTANCE OF THE BANKER.

This unanimity among the bankers with regard to business conditions makes the individual banker a much more important person in Canada than he is in the United States. Business men there do not speak of him as a mere money lender. They look upon him as a man who has especial facilities for getting information about business and financial questions and whose opinion, therefore, is entitled to great respect. This is true not only of the general managers, who as a rule live in the large cities and are men past middle life, but is true as well of the managers even of the small branches. In every community the manager of a branch bank, especially if it is a branch of one of the half dozen largest institutions, occupies a prominent position and exerts a powerful influence in the shaping of business opinion. Not only does he send reports daily or weekly with respect to events of importance within his field, but he himself is constantly getting letters of advice

from the head office. He is the one man in the community who is in touch with the business conditions of the Dominion or, for that matter, of the world. He may be a young man, but he has had a training in the methods of Canadian banking, and it is known that he would not occupy his position if his superiors did not have confidence in his judgment.

As a result of all these conditions working together, it may fairly be said that Canada possesses many of the advantages of a central bank. The employees of each bank, from general manager down to the office boy in the smallest branch, are busily occupied in doing their share toward increasing the bank's business and profits. Each is keenly on the lookout for an opportunity to establish a new branch in a promising young community, and each is doing its best to serve its customers and to gain new ones. But if a cloud appear on the horizon, if bad news comes from England with regard to Canadian investments, or if there is wild speculation in Wall street, the leading bankers get together, not formally, but informally, and as a result the Canadian banks become practically a unit in their attitude toward the common peril.

THE PANIC OF 1907.

The policy adopted by the Canadian banks at the end of 1906, and followed throughout the strenuous year of 1907, illustrates forcibly the solidarity of the banking system. All business men remember the feverish activity of 1906, the steady advance in prices of goods, the insatiable demand for money, and the high rates of interest everywhere prevailing at the end of the year. To the average man

it seemed a period of boundless and unending prosperity. Railroads had not cars enough to haul the freight offered them and could not get them built fast enough. Manufacturers in the United States and in Canada had withdrawn their traveling salesmen because they already had orders for a year ahead.

In the United States a few of the leaders in industry and finance sounded a note of warning, but most men were too busy to hear it and most of the 10,000 bankers refused to believe it justified. As the decline in the market prices of securities began in January, a few bankers in New York City—those in closest touch with the financial needs of corporations and with the temper of foreign money markets—became convinced that serious times were ahead. Most of those men, knowing that a public expression of their apprehensions would do little good and might do harm, silently went about the business of strengthening their resources. Meantime 10,000 or more bankers throughout the country, wondering why the stock market should be weak when the country was so prosperous, continued to make advances at high rates of interest to expanding enterprises. As a result, when the crash came in October, it is doubtful if more than 10 per cent of the bankers in the United States were prepared for it, and for several weeks there was an almost universal suspension of specie payments and withdrawal of banking support from deserving borrowers.

CANADIAN BANKS WERE PREPARED.

In Canada there was no panic. For a year the leading Canadian bankers had been urging upon their customers

the necessity for caution, and in their annual reports to the shareholders early in 1907 bank presidents and general managers had given notice that the phenomenal profits and business of the preceding few years could not be expected to continue much longer. Financial journals and editorial writers for the daily press, taking their cue from the bankers, had for months called attention to the strain upon the world's money markets and pointed out the necessity for conservatism, not only among the banks but among the promoters of new enterprises.

As an illustration of the attitude of the Canadian banker, and therefore of the Canadian business public, the following paragraph from the annual address of the general manager of the Canadian Bank of Commerce, delivered before the shareholders January 8, 1907, is worth quoting:

"While we are enjoying an extraordinary prosperity, there are signs about us of a strain which must bring trouble if they are disregarded. We are a borrowing country, and we can not be reminded of this too often. As we fix capital in new structures, public or private, railways, buildings, etc., someone must find the capital in excess of what we can ourselves provide out of the salable products of our labor. The number of countries willing to buy our securities has been steadily increasing, but we must not be blind, as we sometimes seem to be, to the fact that our power to build depends largely on whether these countries have surplus capital to invest. By means of the cable the trading nations of the world have been brought very near together, and while many local panics have thus been averted, and the adjustment of capital to the world's needs has been greatly improved, still

for the same reason world-wide trouble in the money markets sometimes arises with a suddenness which is alarming to those at least who are not watching for the signs. We are passing through such a period just now, happily without a general breakdown, but unless we mend our ways we are not likely to escape a similar or still worse condition next autumn, which may wreck our fair prosperity. Europe is bearing the enormous cost of two great wars, both in the loss of capital actually destroyed and also in the loss to individuals from the decline in the values of the national securities of the countries interested in the wars. And since these wars, losses on an unexampled scale have occurred by earthquake and fire. The volume of trade and the unusual amount of building in many countries have at the same time vastly increased the amount of capital required. This has been accompanied by a steady rise in prices throughout the world, and by a most pronounced and widespread advance in the scale of personal expenditure. It is true that it has also been accompanied by the greatest production of gold and of other commodities, but the effect of the various influences has naturally been to put upon the money markets a strain which has only just failed to cause a general breakdown of credit. To make the outlook still more serious, the United States and other less important countries, including Canada, contemplate expenditures on a very large scale for railway and other building.

"This, then, is a time for every prudent man to survey carefully his financial position. If he has debts he should consider how he will pay them if he should have to face worldwide stringency in money. Has he assets which the

world needs for daily use, or assets which will sell only when the sun is shining? If he is happily in easy condition as to debt, he will, if he be wise, consider every circumstance arising in his business which tends toward debt instead of toward liquidation. As for those who are plunging in real estate at inflated prices, and in mining stocks, nothing we presume, but the inevitable collapse which follows these seasons of mania will do any good."

The important thing about this paragraph is not the fact that events have fully justified its gloomy predictions, but the fact that practically every general manager in Canada was talking in similar fashion at the same time to his own shareholders. In January, 1907, there was only one opinion among bankers as to the financial situation. For several years the country's trade had been expanding by leaps and bounds. Immigrants had poured into the country from Europe and from the United States. New capital had come from England and the United States at the rate of $200,000,000 a year. The profits of industrial and commercial products had been large. In ten years bank loans and deposits had doubled. In short, Canada's prosperity had been even greater than that of the United States. The demand for capital had outrun the supply, and the strain upon the banking resources every bank manager knew had reached the danger point. Every one of them said this to their shareholders; the newspapers published their remarks, and business men throughout the Dominion knew not only that they ought to retrench, but that they must. They knew that they could get no help from the banks if they sought to enlarge their operations.

GRADUAL CONTRACTION OF LOANS.

It was impossible, of course, for the banks to call an immediate halt in the expansion of enterprise or in the use of their credit. During 1906 (as is graphically shown by Chart I, p. 46) the current loans in Canada had risen from $450,000,000 to $550,000,000, an increase of nearly 25 per cent. Any attempt on the part of the banks to bring this upward movement to a sudden termination would have ruined many a solvent concern. For five months, or until the end of May, the banks suffered it to continue, their loans during that period rising from $550,000,000 to $590,000,000. Then began a gradual contraction and a steady increase in the cash reserve. Between June 1 and September 1 the total of their current loans in Canada declined $10,000,000. At the same time they strengthened their reserves by accumulating cash in their own vaults and by enlarging the amount of their funds on call in New York City. Canadian borrowers were treated with more consideration than those in foreign countries, as is shown by the reduction in current loans elsewhere from $36,000,000 to $23,000,000 between February 1 and July 1. The banks appear to have endeavored to convert their time loans outside of Canada into call loans, having in view an increase in the amount of funds available for immediate use. (See Chart II.)

Between January 1 and September 1 there was a decline in the demand deposits from $192,000,000 to $160,000,000 and an increase in time deposits from $400,000,000 to $425,000,000, so that the total of deposits suffered very little diminution. After the first of September, however,

deposits steadily declined until the end of the year; time deposits from $425,000,000 September 1 to $400,000,000 December 31. Demand deposits remained practically unchanged during this period.

By the first of September Canadian bank managers were evidently quite alive to the necessity for caution. Thereafter all the changes in their statements indicated a conviction on their part that the situation was precarious and that the banker's first duty is to preserve the solvency of his bank and take care of its regular customers. They knew that large sums would be demanded of them for the movement of the crops and were disposed therefore to take every precaution against weakness. The season was late and it was known therefore that there would be difficulty getting the crops to market, for the Canadian railroads, like those in the United States, were embarrassed by lack of equipment. The Toronto News, whose financial editor was doubtless in touch with Toronto bankers, thus describes the situation in September, 1907:

"The Canadian situation corresponds more or less fully with that of New York. Here also considerable sums must be found for moving the western crops at a period of the year later than usual. Here also the banks are finding difficulty in keeping up their deposits and in finding the funds necessary for financing the extensive industrial enterprises which they are supporting. The raising of fresh capital for these enterprises is necessarily a matter of difficulty under the present conditions. There is, however, no indication of unsoundness. The obvious policy is to resist temptation toward increased expenditure

on capital account on the one hand and to exercise a close scrutiny of current expenditure on the other."

In that paragraph the Toronto News doubtless expressed the opinion prevailing among bankers with regard to the situation. They were confident that they could take care of their customers' needs and provide funds for the movement of the country's crops. That there might be a crash in the United States they knew to be a possibility, but they could not foresee it and they hoped that the worst was over.

CALL LOANS REDUCED IN NEW YORK.

When the crash came in New York and the Knickerbocker Trust Company suspended on the 22d of October, Canadian banks immediately adopted measures of self-protection. During the next two months the total of their call loans outside of Canada declined from $62,000,000 to $40,000,000. There was also a small reduction of their call loans in Canada. Their cash reserve was increased by $5,000,000. Their current loans in Canada, however, were $10,000,000 less Novenber 30 than on October 1, and in December they fell off $15,000,000 more. These two months, November and December, were strenuous months in Canada as they were everywhere in the world. The western wheat crop was late and as a result there was a great clamor for funds for their movement. Currency was so scarce in the United States that Canadian bank notes disappeared over the border and performed their function as a medium of exchange in towns and country districts in the United States many miles distant from the Canadian line. Most of the banks

found that their circulation was dangerously near the maximum and feared that they might be called upon to pay out legal tender. There was not the slightest suspicion of banks in Canada and no talk whatever of a run upon any bank. People did complain, however, that the banks were not doing their duty by the western farmers. Why should the banks be lending money on call in Wall street, when the farmers of Manitoba were unable to market their crops because buyers could not get funds from the banks?

CIRCULATION TOO NEAR THE LIMIT.

The banks, their deposits declining, their circulation near the maximum, the railroads unable to haul the crops promptly to market, dared not tie up funds in agricultural products which might later be called for by the commercial and industrial interests of the Dominion. If their capital had been larger so that they might have expanded their note circulation with impunity, the situation would have have been less difficult. Yet something more than notes was wanted. For the first time in many years Canada felt the pinch of that want which is annually felt in the United States, namely, a sudden and great increase in the demand for both capital and currency. And for the first time they faced the risk of being compelled to pay out legal tender money if they satisfied the demands of grain buyers. In other words, the Canadian banks and the agricultural interests of Canada during the last three months of 1907 had a taste of what the banks and farmers of the United States experience every year. The banks dared not make large advances to the buyers of grain lest the depletion of

their reserves or an excessive issue of notes should result. The total circulation had climbed up to $89,000,000, which was only about $6,000,000 under the maximum, and no bank felt that it could authorize its branches to increase the issue of notes; the risk of being called upon to pay the penalty for excessive issue was too great.

To the Canadian banker and to his customer the situation was entirely new. Never before during this generation had the banks been obliged to restrict their loans merely because they feared that an excessive issue of notes might result. Serious and new as the situation was, and though it gave rise to many complaints in business circles, nevertheless there were no important business failures in Canada, and bankers in general felt confident that they would be able to bring the country safely through the crisis. In the last two months of the year the deposits declined $30,000,000 and the current loans in Canada $25,000,000. This shrinkage was inevitable. Many depositors having investments in the United States were obliged to protect them by the withdrawal of funds from Canada. The banks, on their side, were obliged to withdraw their assistance from such customers as needed it least. It is the boast of the banks, however, and is now generally admitted, that during these two months no man who actually deserved and needed a loan was refused it, and few borrowers were obliged to pay an unusual rate of interest.

THE GOVERNMENT TRIES TO HELP.

Canadians are readers of the newspapers of the United States, and they know something about our habit of calling

upon the Government for aid whenever money is "tight." So the question was asked, Why should not the Dominion treasury come to our relief? The banks, it should be noted, did not ask this question. They did not believe that government aid was necessary. Nor was it evident how government aid could be afforded, for the Dominion treasury, unlike that of the United States, keeps all of its cash at all times in the banks, and so has no reserve fund on hand on which to draw for the purpose of easing the money market. The Government, however, was impressed by the popular demand and came forward with an offer of relief which involved a suspension of the Dominion legal tender act, similar to the suspension of the Peel bank act whereby the Bank of England has been permitted to issue notes unsecured by coin.

The issue was made upon the authority of the governor in council dated November 12, 1907, on a memorandum from the minister of finance, in which he described the effect of the world-wide monetary stringency upon Canada and declared that there was much anxiety in the West among farmers, traders, and bankers over "the prospect of insufficient financial accommodation to move the crop." He recommended that the minister be authorized to issue new Dominion notes and deposit them with the banks most largely interested in the grain business, and to accept from the banks high-class securities. In the second memorandum, dated November 26, he recommended that the advances be made through the Bank of Montreal, at such rates of interest, not less than 4 per cent per annum, as the Bank of Montreal might deem fair and reasonable. The advances were not to exceed $10,000,000 and were to

be protected by the deposit of securities satisfactory to the Bank of Montreal. These issues of Dominion notes were approved by act of Parliament July 20, 1908.[a] Events proved that the bankers were right in their claim that they were fully able to take care of the western situation, for there was a call for only $5,115,000 of this emergency issue of Dominion notes. The bankers understood the situation better than did the minister of finance, yet to a citizen of the United States who is used to seeing the Treasury come to the relief of the money market, it is not at all remarkable that the minister felt constrained to give heed to the western cry for more money. The situation was without precedence in Canadian finance. For the first time in their history the chartered banks were obliged to limit their operations, not because their cash resources were low, but because their note issues were practically up to the legal limit, and they feared that further expansion of their loans would cause an inroad upon their cash reserve.

The situation was complicated by the lateness of the wheat crop and still further by the fact that a large part of the crop had been injured by frost. Furthermore, the farmers of the West were dissatisfied with the price offered for their wheat and were holding much of it back from the market. These circumstances caused delay in the movement of the crop and hence tended to tie up bank funds for a longer period than usual. But these were not all the causes of difficulty and delay. Much Canadian wheat is shipped to the East via Port Arthur and Buffalo. This

[a] The memoranda and act of Parliament relating to this issue of Dominion notes are presented in Appendix A.

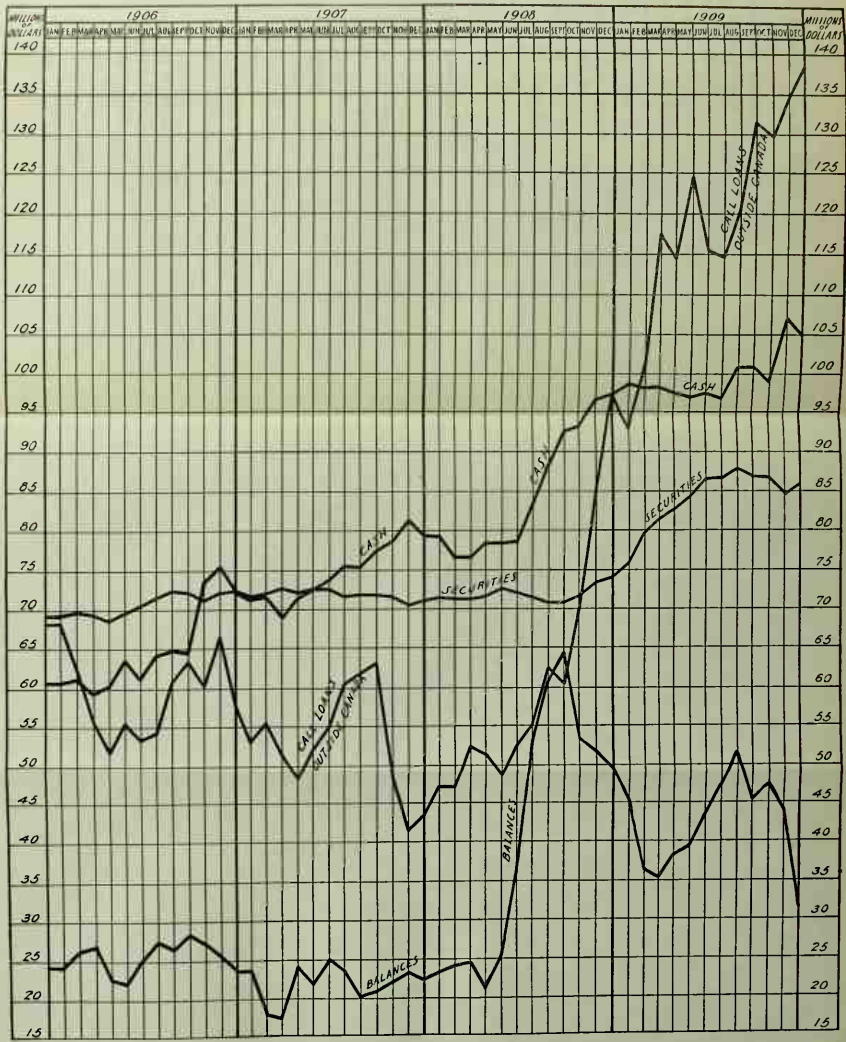
route in 1907 Canadian shippers did not like to use, for the New York checks or drafts which they got in payment were at a discount in gold. The bulk of the wheat had to be shipped, therefore, either by the Montreal water route or by the Canadian Pacific, and the transportation facilities were not adequate.

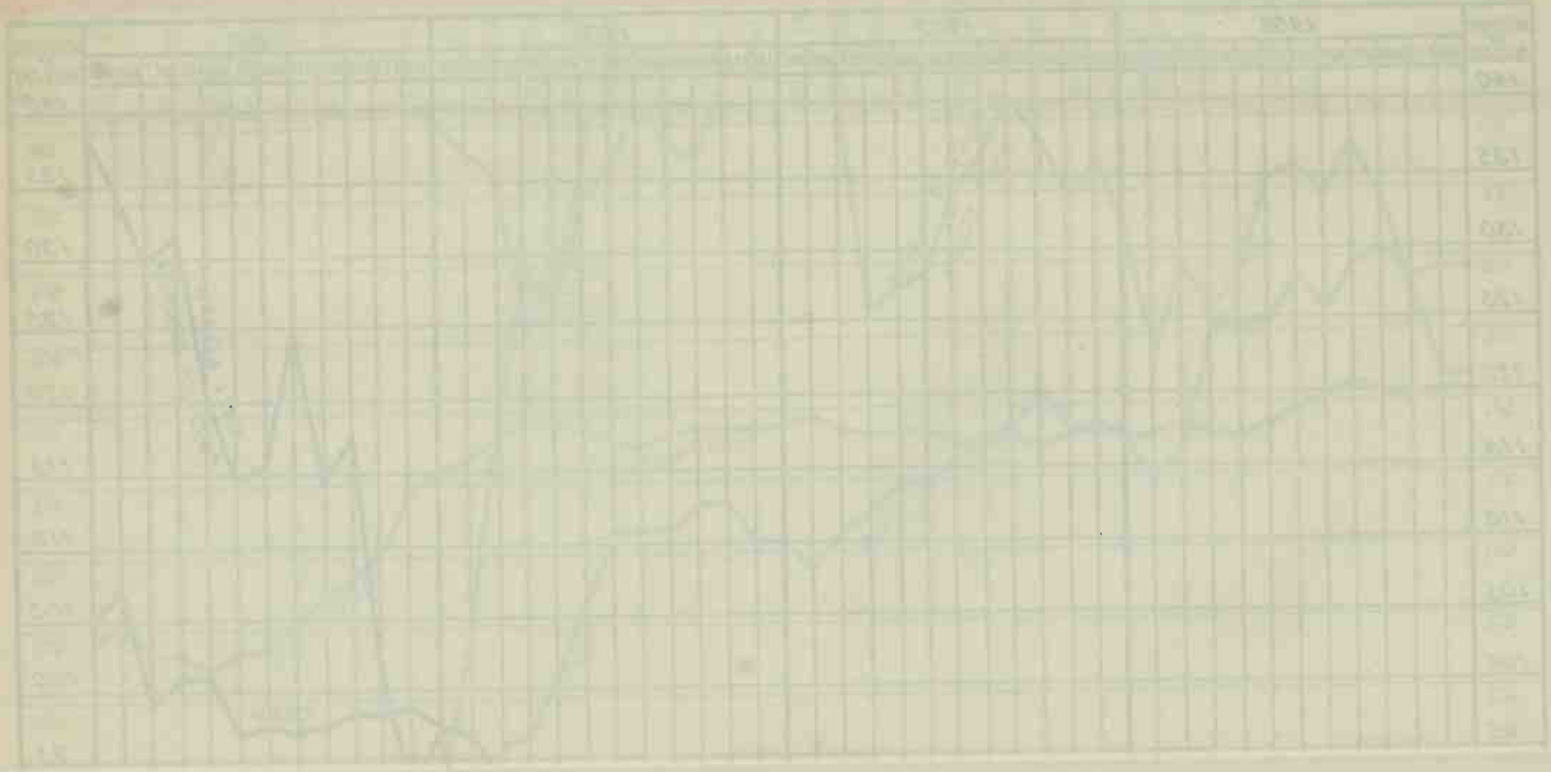
It would seem, therefore, that the inability of the farmer to get a satisfactory price for his wheat, or to get it forward quickly to market, was due not to the failure of banks to do their part, but to the inferior quality of a large part of their crop and to the inadequacy of transportation facilities, aggravated by the panic in the United States.

EVENTS IN 1908.

During 1908 it was inevitable that Canada should suffer from the after effect of the panic in the United States. Immigrants from the United States continued to pour into the Dominion and they brought considerable capital with them. As a result the development of the western provinces, such as Alberta and Saskatchewan, continued without abatement, and the city of Winnipeg, which is the metropolis for the great western country, had a fairly prosperous and active year. In the eastern provinces, however, hard times prevailed. Practically no new capital came over the border from the United States, prices of commodities were low, and most business concerns were seeking to hold their own rather than to enlarge their operations. Canada's financial and commercial relations with the United States and England are so intimate that her economic activities were necessarily affected by the universal reaction.

CHART VIII.—FLUCTUATIONS IN THE FOUR FACTORS OF THE RESERVE CASH, BALANCES ON DEPOSIT OUTSIDE OF CANADA, CALL LOANS OUTSIDE OF CANADA, AND SECURITIES, 1906 1909.





The character of the year 1908 is shown by the bank returns. Current loans declined steadily from November 1, 1907, until March 1, 1909. Deposits, however, began to increase early in 1908, time deposits rising from $395,000,000, March 1, to $430,000,000 December 31. In the same period demand deposits increased from $140,000,000 to $210,000,000, while the cash reserve moved up from $75,000,000 to $100,000,000. The banks being unable to employ their idle funds in Canada during this year, put them out on call in the New York market. The item "call loans elsewhere" (see Chart VIII, page 122,) rose from $41,000,000, December 1, 1907, to $106,000,000, December 31, 1908, and by the end of May, 1909, had climbed to $125,000,000. This is a much larger sum of money than the Canadian banks care to employ in the call-loan market.

During 1907 the banks gradually reduced the amount of call loans in Canada by about $11,000,000. The funds thus released were loaned to merchants, manufacturers, and the buyers of grain. In 1908 this item began to increase, the banks having more money than was needed by business interests. They adopted the same policy with current loans outside of Canada, reducing these during 1907 from $36,000,000 to $23,000,000. In 1908 this item began to increase.

Chart VIII (page 122) makes an interesting exhibit of the use the chartered banks made of the several elements of their reserve in 1907. Early in the year, in anticipation of a strain, they began to increase the cash reserve, at the same time calling loans in New York and reducing foreign balances. Between May and October they loaned rather

freely in the New York call-money market, but during October and November they reduced their outside call loans by $20,000,000. Their credit balances and call loans outside of Canada both increased greatly in the first seven months of 1908, when the demand for money was small in Canada. In the last quarter of 1908 the decline in foreign credit balances explains the rapid increase in outside call loans. Throughout 1909 the banks had resources beyond the needs of Canada, and the outside call loans rose to $138,000,000, an increase of nearly $100,000,000 in two years. In the same two years the cash reserve rose from $80,000,000 to $105,000,000, and the amount of securities held from $71,000,000 to $86,000,000. It is interesting to note that the amount of securities varied but little during 1907. It was not a good year for bonds.

TWO INTERESTING BANK FAILURES.

The story of banking is not without its dramatic incidents in any country. Canada has probably had fewer such incidents in the last generation than most countries, yet there was a bank failure in 1906 which furnished unique details. On the evening of October 12 the bankers in Toronto and Montreal heard with surprise that the Bank of Ontario had got beyond its depth and would not open its doors the next morning. Its capital was $1,500,000 and its deposits $12,000,000. The leading bankers in the Dominion dreaded the effect which the failure of such a bank might have. The Bank of Montreal agreed to take over the assets and pay all the liabilities, provided a number of other banks would agree to share

with it any losses. Its offer was accepted and a representative of the Bank of Montreal took the night train for Toronto. Going breakfastless to the office of the Bank of Ontario he found the directors at the end of an all-night session and laid before them resolutions officially transferring the business and accounts of the bank to the Bank of Montreal. They adopted the resolution before 9 a. m. and the bank opened business for the day with the following notice over its door: "This is the Bank of Montreal."

Before 1 o'clock the same notice, painted on a board or penciled on brown wrapping paper, was over the door of the 31 branches in different parts of the Dominion. Its customers were astonished that day when they went to the bank, but none of them took alarm and many of them were well pleased with the change. The note holders and depositors were paid in full and it is generally understood that the venture was a profitable one for the Bank of Montreal, although litigation is still pending over the double liability of the stockholders. The general manager of the Bank of Ontario, who had sunk its capital in Wall street, received a five years' sentence for making false statements with regard to the bank's affairs.

FIRST OUTBREAK OF HIGH FINANCE.

One other large bank has been in trouble since 1890. It was the Sovereign Bank, an institution having over 80 branches and $16,000,000 in deposits. It was established in 1903 and was managed by an artist in "high finance," the only one of that class, it is claimed, who ever controlled

a big Canadian bank. It is claimed that he was backed by large financial houses in New York and in Germany. He was reckless both in spending and in lending money, and early in 1907, when the assets amounted to over $25,000,000, it became known that much of its paper was valueless. The capital stock was reduced and a new management was placed in charge, but in January, 1908, the bankers of Toronto and Montreal were informed that the Sovereign would be obliged to suspend unless it received assistance. On the 18th of January its business was taken over by 12 banks which guaranteed the creditors against loss. The branches of the bank were divided among these 12 institutions, and report has it that some of the general managers were for a time unable to find all the branches that had been allotted to them. The manager of the Sovereign, in his search for communities needing branch banks, had got ahead of both map makers and the post-office department. The assets of the bank are not proving equal to the liabilities, but the guaranteeing banks are protected from loss by the double liability of the stockholders.

The circumstances attending the liquidation of these two large banks certainly strengthen the view advanced in the early part of this chapter with regard to the solidarity or unity of the Canadian system. Bankers still shake their heads ruefully over the havoc wrought by the Sovereign and over the changes it made in banking practices, whereby various minor profits were annihilated, and declare that if another specialist in "high finance" appears among them they will let him and his friends

take their medicine. "The banks can not go on forever," they say "standing between the people and a rotten bank." Like the directors of the Bank of England, the presidents and managers of the big banks in Canada deny that any responsibility rests upon them for the protection of the country's financial security, yet when the next pinch comes the situation itself will compel them in self-defense to act together both quickly and effectively.

Since 1889 six small banks have failed, but note holders have lost nothing and depositors very little. They were local institutions with few branches and their failures possess little significance in a study of the banking system as a whole.

Chapter IX.

CONCLUSION.

We have seen that the Canadian banking system possesses features of extraordinary merit, adapting it admirably to the needs of the country which it serves. It performs most efficiently the service for which banks are created, gathering up the country's idle capital and placing it in channels of useful employment. The assets of the banks are of high quality because of protection afforded by the law and because borrowers are prevented by custom from hawking their paper through brokers. The law leaves the banks such freedom in the use of their credit that business is never brought to a halt through lack of instruments of exchange; whether the need be for checks and drafts or for bank notes, the supply is always adequate. The redemption system insures perfect elasticity for both the note and deposit currency. The reserve seems to be abundant for the protection of the liabilities and to be composed of elements sufficiently liquid and available. Finally, on account of the extent to which the larger banks are interested in the trade and industries of all parts of the Dominion because of the investments made through their branches, the system possesses a solidarity that makes possible united action in the face of a common peril.

IS THERE A WEAK SPOT?

Would Canada's banking system stand a real strain? Is its gold reserve large enough? Does it not depend too

much on London and New York? If England should withdraw her invested capital, or send no more, would not this banking system break down? Questions of this sort, which are sometimes asked, imply that Canada's system contains a weak but hitherto undiscovered spot, and most of the critics are inclined to think it lies in the smallness of the gold reserve. In the writer's opinion Canada's financial position is of the strongest. Comparatively little gold is needed for the reason that the banks have developed an almost perfect credit system. The people have unquestioning confidence in the credit instruments provided by the banks and never demand that they be converted into gold. Credit settles all debts between the banks and the public. Gold is used only between banks and in the foreign exchanges, and in the latter field a credit balance in London or New York is more useful than a stock of gold in Montreal or Toronto. If England and the United States some day suddenly stop sending capital to Canada, the country will undoubtedly suffer, but the notion that Canada will at once be called on to export large quantities of gold in payment for the imported merchandise now paid for with bills of exchange created by English investments, is crudely mercantilistic. Canada's imports, of course, would decline the moment English capital ceased coming, and the present "unfavorable balance" of trade disappear. There is no likelihood, however, that Canada will cease to draw capital from abroad. It is estimated that England has sent her a round billion dollars in the last ten years, and prospects are much brighter now than they were in 1900.

THE REST-FUND FAD.

The bankers of Canada may some day have cause to regret having allowed a condition to arise which made necessary the amendment of the bank act in 1908 permitting them to issue notes in excess of their paid-up capital, yet at the present time they seem rather complacent over their power to issue an "emergency" circulation. This is surprising, for it is in conflict with the principles upon which the Canadian system is based, and, furthermore, would have been entirely unnecessary if the banks within the last ten years had taken pains to see that the amount of their paid-up capital had increased in the same proportion as their business. In the ten years following 1899 the paid-up capital of the banks increased from $64,000,000 to $96,000,000, a gain of about 50 per cent. In the same period the deposits of the banks grew from $298,000,000 to $640,000,000, a gain of 115 per cent. The ratio of capital to deposit liabilities was suffered to decline steadily during this period. Meantime the rest or surplus was increased from $30,000,000, or about 50 per cent of the capital in 1899, to $74,000,000, or about 75 per cent of the capital, at the end of 1908. The banks have made the mistake of increasing their rest funds rather than their capital. During these ten years they added $44,000,000 to the rest or surplus. If half of this sum had been added to the capital, the banks would have had in 1907 a total paid-up capital of at least $115,000,000 and would have been abundantly able to satisfy the needs of that year. They would then not have been obliged to ask for the right to issue a taxed circulation and would not

have exposed themselves, as they have done, to the risk of having a tax imposed on all their notes. If it is right to tax the notes issued in excess of the paid-up capital, people are asking, why is it not right and proper that the banks should pay a tax on all their circulation?

Sentiment seems to have had most to do with the increase of the rest fund.[a] There is a popular notion, and the banks have done a good deal to create it, that a bank's solidity and prosperity are somehow measured by the size of its rest fund, and the banks have engaged in unreasonable competition to bring their rests up to the highest possible amounts. Furthermore, bank directors and managers like to have the market prices of their stocks steadily climbing upward. If they divided part of their profits among stockholders in the form of a stock dividend, there has always been the fear that the market price of the stock in consequence would decline and the bank somehow be injured. Bank directors also take pride in the maintenance of a regular rate of dividend. If they can increase the rate and at the same time add a proper amount to their rest fund, well and good, but they shrink

[a] The general manager of one of the largest banks said to the writer: "I consider the new emergency law allowing a bank to issue, during certain seasons of the year, 15 per cent of their capital and surplus in additional bank notes by paying a tax, as very unscientific. We have had no real need to increase our capital stock to supply additional notes. The only time there has not been an ample supply of notes was during the crop-moving season of 1907. This season and the panic came together; otherwise we could have handled the situation satisfactorily. Only five banks have ever taken advantage of the new law. With our present powers we have for the most of the year a large amount of our notes on hand that we can not keep in circulation. Then there is a tax on capital stock, so the greater our capital the greater the burden of taxes. The banks take pride in their surplus fund and do not want it disturbed. By adding to it we show that we are gaining in strength each year."

from increasing the capital stock at the expense of the dividend rate. For all these reasons the Canadian banks during the last prosperous decade have failed to make their capital account grow with their business and are now paying the penalty, for there is no reason in the nature of things why a Canadian bank should be obliged to pay a high tax upon any portion of the currency which the country requires. It is quite possible, of course, that the banks are not paying their due share of taxes. But this possibility furnishes no excuse for a tax on circulating notes. Such a tax in the long run is always paid by the people. In one way or another, either by the exaction of a high rate of interest or by the imposition of unusually hard conditions, banks will probably force their customers to pay the tax on the emergency circulation. Nevertheless the banks will have the annoyance of payment, and few of them will realize that the tax is shifted.

It may occur to some readers that perhaps the government imposed a tax on the "emergency circulation" in order to compel its retirement at the end of the crop-moving season. Such a thought was in nobody's mind when the law was passed. Everybody knew that the notes, whether taxed or not, would be retired automatically in January. However, the country's business is growing so rapidly that some of the banks, if they do not increase their capital, may very soon have difficulty keeping their circulation within limits even during the dull months. Since the business of the banks, as indicated by their deposits and loans, is increasing at a much faster pace than their circulation, the natural and proper increase of the capital account should be sufficient in the future to permit an untaxed circulation adequate at all seasons of the year.

HAVE CANADIAN BANKERS A MONOPOLY?

The people of Canada generally speak of their banking system with a good deal of pride and satisfaction. Many of them know that it has been called one of the best in the world, and are not slow to mention this fact when critics appear from abroad. Home critics, however, are not lacking.

One of the commonest charges against the banks is that they possess a monopoly of the money power. This is not surprising, for the banks pursue a policy of secretiveness which gives outsiders the impression that somehow they are leagued together in a manner prejudicial to the interests of the public. In the writer's opinion this impression is not justified, yet it must be admitted that Canadian bankers are a bit too secretive. They are unwilling to give out any more information about their affairs than the law compels, as is shown, for instance, by their reluctance to let the public know the facts about banking operations in the different provinces. In the United States, by the aid of the reports of the Comptroller of the Currency and of the state banking departments, one can study the development of banking in any state or even in a small community. In Canada bankers will make general statements about the growth and prosperity of certain sections of the country, as indicated by the number of new branches established, which are matters of newspaper report, but they do not want any discussion of the sources from which the funds are drawn for the maintenance of these new branches. The inquirer should be satisfied with the general statement that the bank's resources are growing, so

that it is always ready to take care of new business. That the additional funds come from communities whose loanable funds exceed the amount they are willing to use at the current rate of interest, is a fact that the banks do not care to advertise. There is also the policy of the banks with regard to government examinations. The banks hold that they can examine themselves better than the government can and that no bank should be called on to open its books to outsiders. It is also understood that the banks act together in matters of legislation. No bill affecting the interests of banks can get into the Dominion parliament, or into a provincial legislature, without the fact being known within twenty-four hours to practically all bank presidents and general managers. The writer could find no reason for believing that the banks were actuated in any of these matters by improper motives. Yet the secretiveness and effectiveness of their policy do give the politician as well as the demagogue some excuse for hostility.[a]

The tendency in Canadian banking, as in all forms of business activity, is unmistakably toward combination. The chartered banks possess no monopoly now, but the situation is such that the large banks have a great ad-

[a] It is interesting to have the view of an "outsider" among the banks. One of the smaller banks insisted on paying depositors at the rate of 3½ per cent, and was in consequence expelled from the Toronto clearing house. Its general manager talked to the writer as follows:

"The older banks demand that no bank pay more than 3 per cent interest on its deposits. Deposits are worth more than that. Up to a decade or so ago it was the custom and was expected that all new banks would pay one-half to one per cent more interest on deposits than the older banks did. Now the large banks, which dominate the policy of the clearing houses, say to us younger banks that if we pay more than 3 per cent interest we can not have the privileges of the clearing house. By the use

vantage over the small ones and seem destined to get most of the new business that will be created in Canada in coming years. Their prestige assures their branches a welcome in every new community. No business is too large for their resources, and none is so small as to be despised. They are able to open more new branches than their small competitors, and can much better afford, if need be, to operate them for a time at a loss. It will not be surprising, therefore, if Canada has fewer banks ten years hence than now. One or two mergers would give the country a bank as dominant in its field as is the Bank of France or Bank of Germany.

BANK INSPECTION BY OUTSIDERS.

The system of bank inspection, satisfactory as it is from the general manager's point of view, does not altogether satisfy the public, and will doubtless be amended in 1910. Under the present system the branches are very closely watched by the head office, but nobody examines the head office. Theoretically, the directors are supposed to keep a sharp eye upon the general manager and to be able to prevent him from making improper use of a bank's funds. As a matter of fact, however, boards of directors in Canada

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of this club they have forced several of the younger banks not to pay over 3 per cent and thus prevented their giving the depositor the interest he deserved and prevented the new bank from being a real competitor of the older banks.

"This is the only bank that they could not force into line, so I am denied the use of the clearing house here. The other banks in the city have to send their messengers around to us every day with our notes and checks. We get rid of their notes and checks by simply depositing them with one of the clearing-house banks. I find that I can get along very well without the use of the clearing house and my not belonging to it puts them to a great deal more trouble than it does me."

do not always direct. The careers of the Bank of Ontario and the Sovereign Bank show that it is not impossible for a speculative general manager to keep a board of directors very much in the dark as to the character of his transactions and the value of the bank's assets. At any rate, the opinion is growing in Canada among bank shareholders and in business circles that the chartered banks ought to be subject to some sort of outside supervision or examination. In some quarters inspection by government officials is favored. This is opposed by the banks on the ground that government examiners would usually be incompetent, the task of examining a bank with a hundred or more branches being a very difficult one. Some of their critics say that the real reason why the larger banks are against any system of government inspection is because they fear it would lessen their advantage by giving an unearned prestige to their smaller competitors, many people being likely to think that one bank must be as good as another if the government has its eye on all.

Logically the power of inspection ought to be invested in the Canadian Bankers' Association. This body now has supervision of the circulation, but it has no authority to make any investigation of a bank's affairs. Since it represents both the government and the banks, it would seem that it ought to have the power to protect the interests of both. The associated bankers should certainly be able to devise an inspection system which, while not injuring the interests of any particular bank, would both satisfy and protect the public. If they do not do this, the politicians will probably insist upon some form of government examination.

NEED OF EDUCATION.

Being a teacher, the writer must express his regret because of the seeming indifference of Canadian bankers with regard to the education of their employees. When a boy at the age of 15 enters a Canadian bank, he leaves all hope of education behind. He will learn a great deal "by doing" and by contact with strong and successful men, but he will have little chance to improve his mind by systematic study or through attendance upon lectures. His hours will be long and, from the American point of view, his pay will be small. If he has an iron constitution, sound nerves, and an inconquerable stomach, together with a clear head, a steady will, and a good character, he will some day be manager of a branch and perhaps a general manager. But he will have to work out his own salvation without the aid or encouragement of the world's best thought and experience. It is to be hoped that the older bankers of Canada will get a conviction of sin on this subject and through their Bankers' Association make some provision for the intellectual growth of the young fellows in their employ. If they fail on this score, the time may come when the staffs of the Canadian banks, despite their prestige, may no longer contain men of the quality necessary to the making of a first-class general manager.[a]

[a] Banks are already losing their charm for young men. Said a general manager in Montreal:

"Twenty years ago there was a long waiting list—often as high as 150 boys—from the best families, who were desirous of entering into the service of the bank. But of late years the commercial development of the country has been such that the young men are entering other lines of business where perhaps the inducements are greater. Now there is not only no waiting list, but we find it hard to get young men of the standard we used to get."

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APPENDIXES.

APPENDIX A.

Memoranda and Legislation Relating to Currency in 1907 and 1908.

I.

[P. C. 2501.]

Extract from a Report of the Committee of the Privy Council, approved by the Governor-General on the 12th November, 1907.

On a memorandum dated 11th November, 1907, from the minister of finance, calling attention to certain conditions of an exceptional nature existing at the present time in connection with the important business of moving to the world market the grain crop of western Canada, which conditions seem to call for governmental action, the minister observes that throughout the financial stringency which has been and is being felt in all the money markets of the world the general business of Canada so far has stood well. At such a time, however, all loaning business must be conducted more conservatively than at other times. The banks, finding it difficult to readily turn into cash resources which under normal conditions are of an easily realizable character, deem it necessary to restrict to some extent their commercial credits.

In the case of the grain trade of the Northwest special conditions have arisen to which the attention of the minister of finance has recently been drawn.

Experience shows that a very limited quantity of grain can be brought to the seaboard by the present railway facilities. The successful movement of the crop is dependent largely on water transportation. The present season of lake navigation will close in about a month. The crop of 1907 has been somewhat later than usual, and accordingly the pressure of moving it falls within a short period. An unusually large percentage of the harvest, it is represented, particularly in Saskatchewan and Alberta, consists of low-grade wheat, for which there is at present an available market at good prices in eastern Canada and abroad, but which, if not brought out before the close of navigation, will have to be carried over at a heavy loss, owing to deterioration, which, it is represented, will take place if the wheat be stored for the winter.

The prospect of insufficient financial accommodation to move the crop is the cause of much anxiety in the West among farmers, traders, and bankers, and urgent appeals have been made to the government to devise some means of meeting the temporary difficulty. The question can not be deemed a local one, affecting the West only, inasmuch as the satisfactory marketing of the crop has an important bearing upon the trade and commerce of the Dominion at large. In other branches of business, no doubt, the financial stringency is felt, but the necessity of moving the grain crop before the close of lake navigation, now so near at hand, creates exceptional conditions which seem to demand exceptional action.

The minister of finance has given careful consideration to representations which have reached him through commercial bodies and government officials in the West, and has had communications with leading bankers, who agree that the situation is a serious one, which calls for some relief.

In the opinion of the minister the only way in which relief can properly be granted by the government is by placing the banks handling this class of business in a position to provide the necessary credits to responsible parties. For this purpose the minister recommends that he be authorized to advance, upon the security hereinafter mentioned, to chartered banks to be designated by him, being banks which are engaged in the business of financing the moving of the grain crop of the Northwest to the seaboard, such sums of money as he may deem reasonable and proper, not to exceed in the aggregate $10,000,000, such advances to be accepted by the said banks upon the condition that the moneys are to be employed in the creation or enlargement of credits to parties in the grain trade, either as producers or dealers, for the purpose of assisting in the transportation of the crop from the West to the seaboard during the present season.

The minister further recommends that such advances be made upon the deposit by the said banks of such high-class securities as they may be able to offer and of which the minister of finance may approve.

The minister further recommends that he be authorized to appoint a competent advisory committee to assist him

in the carrying out of the proposed arrangements; that such committee be composed of Mr. E. S. Clouston, general manager of the Bank of Montreal; Mr. Thomas Fyshe, late general manager of the Merchants' Bank of Canada; and Mr. J. M. Courtney, C. M. G., I. S. O., late deputy minister of finance; and that no securities offered by the said banks for the advances herein referred to be approved by the minister of finance unless they have first been approved by the said advisory committee.

The minister further recommends that any bank which may avail itself of the assistance herein recommended shall be required to pay to the government interest at the rate of 6 per cent per annum on such advances for a period of three months, and that for any period after the said three months the rate of interest to be paid shall be at the rate of 7 per cent per annum; that all sums so advanced shall be repayable by the banks to the government on or before the 1st day of May, 1908; that the securities deposited by the banks be returned to them from time to time in proportion as the advances are repaid, and that upon the repayment of such advances to the government the authority to issue the additional notes herein referred to be canceled and the note circulation be thereafter governed by the provisions of the existing law.

As to the manner in which the moneys for the proposed advances are to be provided, the minister observes that the funds in hand are not more than sufficient to meet the ordinary requirements of the government's business, and that in the present condition of the money market, when the Bank of England rate of discount has been advanced

to the high rate of 7 per cent, the borrowing of this money by the issue of treasury bills would be unusually difficult and a rate of interest would undoubtedly have to be paid which might have an injurious effect on the general credit of the Dominion. For these reasons the minister recommends that he be authorized to issue such additional amount of Dominion notes as may be necessary, not exceeding in all the said amount of $10,000,000. A strict compliance with the terms of the Dominion notes act would require that such an issue be made against the deposit of an equal amount of gold in the treasury. For the reasons already stated, it would be exceedingly difficult to comply with the letter of the provisions of the law in this respect. The minister of finance is of opinion that under such circumstances the government might properly issue such notes against the deposit by the banks of high-class securities to be approved, as hereinbefore stated, by the advisory committee and the minister of finance. The government would, in the opinion of the minister, be fully protected against loss in the transaction, inasmuch as they would have, in addition to the deposit of the high-class securities before referred to, the general credit of all the banks which might avail themselves of the advance; and in this connection it is to be noted that the government have priority of claim against the banks over all other creditors except note holders. In the opinion of the minister, therefore, although the arrangement proposed would be a technical departure from the terms of the Dominion notes act, such departure is justified by the exceptional circumstances above mentioned.

The minister further recommends that, at the ensuing session, Parliament be asked to enact a bill of indemnity confirming and sanctioning the proceedings herein recommended in so far as they require, for their validity, legal confirmation or sanction.

The committee submit the same for approval.

RODOLPHE BOUDREAU,
Clerk of the Privy Council.

II.

[P. C. 2631.]

Extract from a Report of the Committee of the Privy Council, approved by the Governor-General on the 26th November, 1907.

On a memorandum, dated 20th November, 1907, from the minister of finance, recommending with a view to the taking of prompt action in the case of any bank which may desire to avail itself of the aids proposed in the order in council of November 12, 1907, for the handling of the western grain crop, that the said order in council be amended to the following effect:

That the advances to be made to the banks be made through the Bank of Montreal.

That the Bank of Montreal, acting on behalf of the government, be authorized to advance such sum or sums as may be required, not exceeding in all $10,000,000, for the purpose set forth in the said order in council of November 12, at such rate or rates of interest, not less than 4 per cent per annum, as the said Bank of Montreal may deem fair and reasonable.

That the Bank of Montreal shall pay to the government such sums as it may receive by way of interest from the banks to which such advances shall be made.

That, for the purpose of providing the funds necessary for such advances, the minister of finance shall deposit in the Bank of Montreal from time to time Dominion notes equal to the amounts so advanced.

That the Bank of Montreal shall receive from the banks to which such advances shall be made such securities as are deemed by the Bank of Montreal satisfactory, and that such securities shall be held by the Bank of Montreal in trust for the government against the issue of Dominion notes herein referred to, but such securities may be released from time to time as the advances may be repaid by the banks.

That the Bank of Montreal, besides holding the said securities in trust for the government as aforesaid, shall become responsible to the government for all advances so made and shall guarantee the repayment of such advances to the minister of finance on or before the 1st day of May, 1908.

That for its services in the management of the business and for guaranteeing repayment of advances so to be made, the Bank of Montreal shall be paid a fair and reasonable commission to be hereafter fixed by the Governor-General in council.

The committee submit the same for approval.

RODOLPHE BOUDREAU,
Clerk of the Privy Council.

III.

AN ACT Respecting a certain issue of Dominion notes.

[Assented to 20th July, 1908.]

Whereas for the purposes set forth in an order in council of the 12th day of November, 1907, and an amending order in council of the 26th day of November, 1907, copies of which with related documents have been laid before Parliament, and pursuant to the said orders the minister of finance, between the 20th day of November, 1907, and the 3d day of January, 1908, from time to time issued and made advances of Dominion notes to the amount of $5,315,000, the greatest amount of such notes at any time issued and outstanding being $5,115,000; and whereas, with respect to the greater part of the last-mentioned amount, security in the form required by section 5 of the Dominion notes act was not held; and whereas it is expedient, in so far as the said issue and the making of the said advances require legal confirmation, that they be confirmed; therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The issue of Dominion notes and all things done under the provisions of the orders in council cited in the preamble are hereby confirmed, and shall be deemed to have been duly authorized.

APPENDIX B.

THE COOPERATIVE PEOPLE'S BANKS OF CANADA.

By ALPHONSE DESJARDINS,[a] *President and Manager of "La Caisse Populaire de Lévis."*

The perplexing problem of adequately and safely supplying the financial needs of the laboring and farming classes is one that has long attracted the attention of thinkers and philanthropists. It was in this connection that the *Mont de piété* was originated in Italy several hundred years ago, traces of which are still to be found in many large cities of Europe. Although based upon a very commendable desire to help those who were in great need of money and credit, the methods evolved proved very often inadequate, depending almost entirely upon the charity or benevolence of those who took upon themselves the onerous duty of providing the necessary funds to carry on the operations of those institutions. In fact, the *Mont de piété* was almost purely a charitable establishment, appealing in no way to the energetic and invigorating sentiment of self-help through the redeeming practice of saving. As was to be expected, the defects of this system became more and more apparent as time went on, and with the gradual dwindling of the enthusiasm on which it was founded, the institution itself waned through want of the necessary funds. Hence, the unfortunate

[a] M. Desjardins was the originator of this movement in Canada, and, in fact, on this continent. He organized the cooperative bank of Lévis, of which he has ever since been the president and manager.

borrowers of the working classes had again to call upon the usurers and pay, as theretofore, extortionate rates for loans of every description. It was not until the middle of the nineteenth century that a practical method was discovered, and half a century of success has proved how sound and reliable this new system is when applied with common sense and with due regard to local requirements and circumstances.

It is to Germany that we owe the fundamental idea of this most beneficent and practical innovation. Schulze-Delitsch and Raiffeisen, without concerted action, but animated by the same idea of helping the poor, devised systems, similar in principle, whereby the use of credit, so advantageous in the higher spheres of trade and industry, could safely be extended to the masses of the people—the small folk, farmers, laborers, and the like. The first experiments with the new system were made about the year 1850. It was, however, some years before its safety and feasibility were generally recognized, even in Germany, whence it gradually spread to other countries. But its subsequent development has been marvelous, and it has taken a firm root almost everywhere with equal success when the pioneers have been wise enough, as was the case with Signor Luigi Luzzatti in Italy, to take into due consideration the circumstances and the prejudices with which they had to deal, and to modify it in such a way as to suit the varying conditions of their respective communities.

At the start Schulze and Raiffeisen rested their cooperative banks upon the principle of unlimited and joint liability of the members, the former requiring the coop-

erators to provide the necessary funds by subscribing and paying large shares, with a view to impressing on the members the necessity of thrift if they would expect credit later on. Raiffeisen, on the other hand, would not admit the share feature, believing unlimited and joint liability sufficient to attract savings deposits ample enough to meet all the requirements of the borrowing members. But both Schulze and Raiffeisen insisted upon the exclusively local character of their banks, the sphere of their activity being restricted to a very small territorial area, say a ward in a large city, a parish, or a municipality in a rural district. And in this principle lies the very essence of the safety of the institution, as will be shown later on.

The subsequent elimination of the unlimited-liability feature of these banks in many countries, so far from justifying the fear entertained by the great founders of the system, has removed obstacles that would, in numerous instances, have inevitably deprived the population of the immense benefits that they have enjoyed by adopting it in a more suitable form. The illustrious father of the Italian *Banche Popolare* was the first to depart from the principle of unlimited liability, contending that in his country it was not viewed with favor by the masses, and, moreover, that it was not required for securing the necessary funds; experience, indeed, has shown that these funds have been abundant at all times. He therefore recommended a milder form of liability based on the amount of the shares subscribed; and the admirable success of his banks is evidence that he was right. The same principle is now

being adopted even in Germany and many other countries that have closely followed the German example. Taking a still broader view of this question, and considering the decided hostility of our people to anything like wide and, therefore, more or less unknown liability, I adopted in Canada an entirely new régime similar to the prevailing system of the savings banks of the New England States, where there is no capital stock, the depositors alone providing the funds and enjoying to the fullest extent the right to withdraw their money almost at will, a mere notice being required if the necessity of so doing arises.

Our working capital is composed of shares and deposits, the difference between them being more of a moral character than a practical one, so far as the member is concerned; for his liability is the same in either case, his shares and his deposits being alike withdrawable just as are the deposits in an ordinary banking depository.

The distinction between a share and a deposit is that the former is made up of savings with a view of meeting future contingencies more or less remote, a kind of time deposit, while the latter is money put aside for almost daily use, like the bulk of the funds put in banks and withdrawable by check.

This régime of a withdrawable capital was sanctioned by law in France as long ago as 1867, with the passing of the legislation authorizing the organization of societies with a variable membership and capital, the capital being liable to variation by the admission of new members, or by the subscription of new shares on the part of the old members.

As will be readily seen, the main idea of this system is exactly the same as is to be found in the uncapitalized savings banks of the United States, but with this most commendable feature, that the funds thus accumulated are utilized to meet the needs of the very classes from which the customers of these banks are drawn; in other words, the savings of the working classes are put at the disposal of such working people as happen to be in need of money for provident and useful purposes, not for extravagance or ill use, thus preventing their having to appeal to the professional money lenders or usurers at an enormous if not ruinous expense. One can hardly realize how benificent such a system can be if properly worked upon practical and safe principles. Experience of more than half a century elsewhere, mainly in Europe, and of nine full years in Canada, proves conclusively that institutions of savings and credit, in the modified form above indicated, are easily and safely practicable among the humbler classes.

Now, it is obvious that such a credit system must be worked upon different methods and with safeguards distinct from those to be found in the higher banking sphere. The requirements do not very materially differ in their intrinsic nature, although larger in the latter case than in the former; but the ways and means being different, so the methods must differ.

In the banking system the capital is fixed; in the cooperative credit régime it is withdrawable, and therefore variable. Hence due regard must be had to this particular feature of divergence. The banks use to a very large

extent borrowed capital in the shape of deposits from the general public; so do the people's cooperative banks, but in their case this capital is provided by the members either in the form of withdrawable shares or of mere deposits.

The banks do business with the general public, either borrowing on the confidence they enjoy or loaning to whosoever offers what is considered a good banking security; the cooperative people's banks are associations dealing only with their members. The banks being an aggregation of capital, the character of the shareholders is not scrutinized in any way; the cooperative people's banks being an association of persons, qualities and good habits are predominant, not the funds they can bring to the society. The banks in doing business with the general public may loan money to parties thousands of miles away; the cooperative people's banks on account of their special character do not loan funds outside their immediate vicinity—in other words, beyond the very locality where they are worked—refusing even members who have gone abroad, unless a resident member holds himself responsible for the faithful repayment of the loan and is considered perfectly reliable in every way. The banks being a concentration of capital, the capital alone is paramount, and the system of one vote one share prevails as well as the vote by proxy; the cooperative people's banks being associations of persons or individuals, the person is paramount. Hence the principle of only one vote, without regard to the number of shares held, and there is no vote by proxy, except for corporate or public bodies.

The banks being organized by capitalists, or those that have money to spare, which they can dispense with for a long time, the amount of the share is generally a larger one than a workingman or a poor man can afford.

The cooperative people's banks being intended for people who have no money, except what they can save by very small sums, putting a few cents aside weekly, the shares must be of a few dollars only, payable by small installments. Some of the most powerful cooperative banks in Europe have started with $4 shares, payable 2 cents a month. This and the withdrawable feature of these credit unions are necessitated by the circumstances of the desired members and are adopted in order to induce the largest possible number of the working classes to join the societes and reap the benefit they offer.

With these differences in view it is easy to realize how appropriate are the principles laid down for the management of these cooperative people's banks.

Three boards are chosen by the annual general meeting called, respectively, the board of administration, the commission on credit, and the board of supervision.

The members of each of these boards must be distinct; that is, one member can not be on two boards, exception being made for the president of the society, who is *ex officio* a member of the commission on credit, in order that he may be in a position to acquaint the board of administration with all that is done in this important body, the motives and reasons upon which its decisions are based, and the propriety of measures having for their object the increasing of the funds of the society.

The president being, or supposed to be, the best man on this general board, and this board being selected out of the best men in the society, his moral authority is large, and so is his responsibility. It is therefore but fair that his guiding influence should be strengthened by corresponding opportunities for supervision and advice. He is, as just stated, the only exception to the rule that one person can not be member of more than one board or commission, the object of this rule being to avoid any dividing or shifting of responsibility.

Without going into every detail, let us next consider the various duties to be discharged by these boards.

The board of administration has general powers of supervision and control over the affairs of the society. It controls the admission and expulsion of members, sees to the transfer of shares, if any, makes all necessary recommendations to the general meeting in connection with the dividing of the profits of the year, the disposal of which is not already provided for in the constitution, approves or suggests any desirable amendments to the by-laws, submits to the general meeting any increase in the number of shares that may be held by, or the amount loanable to, one member, appoints the manager and other officials required, and exercises all the necessary administrative powers not specially assigned to the two other boards.

The commission on credit deals only with the loans submitted to it through the manager. It makes by-laws determining the conditions upon which the loans are to be made, the security exacted, apart from the moral

qualities which are paramount, the rate of interest to be charged, and the proper repayment of such loans. The fixing of the rate of interest upon loans must be made with due regard to the prevailing rates in the locality for similar loans and at lowest rate consistent with safety, having in view the proper interest on the capital in order always to offer a legitimate inducement to members to increase their holdings and thereby keep abundant resources for the borrowing portion of the membership. No loan can be made unless the members present are unanimous. In case of refusal for want of unanimity, the would-be borrower can appeal to the board of administration, and the decision of this body is final. The members of the commission on credit can not borrow either directly or indirectly.

As the granting of loans must be considered to be the most important duty of the commission on credit and therefore deserving the closest attention, it must be stated here that the borrower is always requested to declare distinctly the object for which he asks the loan and how he intends to repay it. If the object is an improvident one in the opinion of the commission, it must not be granted for any consideration or under any circumstances, be the security of the highest character. No person is allowed to borrow if it is not to effect an economy or for a productive purpose. This golden rule, this essential principle, has always been enforced and has worked wonders as a measure of safety. The character and habits of the borrower, as well as of his family, have of course to be inquired carefully into in order to assure not

only his willingness but also his ability to reimburse the loan. The moral security is paramount, and refusal must follow if this security is not forthcoming, however reliable may be the other guarantees offered, because the contrary will inevitably bring trouble and discredit upon the society. Thus honesty, industrious habits, good conduct, and thrift become valid and negotiable assets for the poor man.

The loan must be repaid regularly and faithfully. The conditions in most cases are those offered by the borrower himself, if considered reasonable and fair, but once accepted he must be held strictly to them, unless there is a case of *force majeure*, like sickness or unemployment. Punctuality is a virtue that must be taught. Its practice will confer so great advantages that the borrower himself will soon appreciate them.

The interest is usually made payable every three months, but all installments paid in are deducted from the loan, the interest being computed upon the balance only, and so on until the whole sum is repaid.

The board of administration is renewable half every year. The commission on credit and the board of supervision are elected every year, and are composed, say, the former of four and the latter of three members. But of course the number will vary according to circumstances.

The powers of the board of supervision are of the widest character, including the ordinary duties of auditors. In fact, its functions may be best described as those of a general meeting sitting *en permanence* alongside the officers chosen to administer the affairs of the society. This board may, and in some stated cases must, call at any

time a general meeting and submit to it, as representing the whole society, an account of the acts of the commission on credit.

Officers and members of the boards give their services gratuitously. None can receive one cent either as remuneration or indemnity. The manager and clerks, if any, alone are paid.

The boards meet as often as the affairs of the society require. The manager, whose duties are very important and whose services are most valuable to insure the success of the association, should be selected, with care and wisdom, from among the members, or must become a member before being appointed.

In a democratic organization like the one here described, it is hardly necessary to add that the general meeting is supreme, and intervenes as often as required. It must further be remarked that it fixes from time to time the maximum amount of shares that a member can hold, the maximum amount that can be loaned at one time to a member, the annual dividend to be paid on shares, and the percentage of the net profits to be appropriated annually for the guarantee fund, or other funds, if any.

Apart from good management, certain principles must be strictly adhered to if the success of such an association is to be assured. Of these the most important is that the bank, to be truly cooperative—that is, in order to arouse the interest of every one of its members and to induce them to extend to it the benefit of their own personal experience—must restrict its activity to a very small

area, or if formed in a trade union or some similar organization, then it should not go beyond the membership of such a society to enlist members. The object being to associate together people that have a mutual knowledge of their moral worth, this could not be easily attained if the credit union were to accept members over a large area of territory or from the population of a large city.

True, there are instances in Europe where such cooperative banks have been very successful in large cities, the *Banche Popolare di Milano*, called the jewel of cooperative credit of Italy, being the most striking example. Without denying the force of such cases, I believe that, as a matter of principle and safety, it is better to restrict the field and make it as narrow as possible, consistent with the requirements of the existing circumstances. Above all, in America, where the population is more fluid, so to speak, not having to the same degree that character of permanency which is to be found in European cities, this principle offers a safeguard that can not be dispensed with without grave danger. It must be borne in mind that the object is not to create huge concerns with large funds at their disposal, but small societies for the benefit of the masses, where needs can be attended to with a comparatively small amount of loanable capital. Moreover, the union, moving in such a small sphere of activity, is less liable to be deceived by borrowers as to their good character, the honest utilization of the funds, their standing, and their means to repay the loan as agreed, all of which must be ascertained before the money is handed over.

Borrowers have also to state distinctly for what object they want loans, and after the proper officers have satisfied themselves that such object is a good one—that the parties will in all probability benefit by it—that their experience, their good judgment, industry, and energy will successfully utilize the funds put at their disposal—these officers, by the fact that the transactions are only local, are in a much better position to follow up the borrowers and ascertain that the money is faithfully invested in the way stated. Thus this rule tends to the safety of the union and protects it against losses—a view which is confirmed by practical everyday experience, as will be shown later on.

When a member is admitted, the board of administration has to be satisfied that he is honest, upright, and industrious; furthermore, a new inquiry is made when the same individual applies for a loan. The commission on credit has to look carefully into his character and be certain that the would-be borrower possesses the required qualities, for these moral assets are the very groundwork of his credit. A man may not be wealthy, but nothing prevents him from being honest, thrifty, and industrious, and with such qualities he will in most, if not all, cases be able to repay the amount borrowed. This, again, can much more easily be ascertained if the cooperative bank has but a narrow field of activity. However, all this does not preclude the association from taking additional measures of security in the way of indorsers or other substantial guaranty, which, indeed, is generally done until the borrower has established a first-class

reputation for himself by his punctuality in meeting his installments or payments when due.

Moreover, the amount that can be loaned at any time to one member is always passed upon by the general annual meeting, having, of course, due regard to the funds available and the necessity of providing useful employment for all the money at the disposal of the society. Thus the danger or possibility of loaning too large an amount to one individual is surely avoided.

Loans may be made for a long time, even for ten or fifteen years, provided the installment plan is adopted, once the guaranty fund has reached a certain proportion of the general assets. Furthermore, it is a very strict and rigidly enforced rule that the smaller the loans the greater is the preference they enjoy; in other words, the small borrower has always the preference over the larger one, this being considered as consistent with the spirit and object of the society.

The stability of such a credit union is increased and insured by the rapid formation of a guaranty fund, to be eventually equal to, if not more than, the maximum amount of paid-up shares. This fund is early accumulated by means of annual contributions from the net profits. These contributions should be relatively large to begin with, say, 20 per cent, or one-fifth of the net earnings. When, as will soon be the case, the fund shall have reached an amount affording a fairly substantial security, the percentage can be lowered safely, not less than 5 per cent, however, until the said fund is completed as provided for.

The shares being withdrawable in order better to meet the requirements of the poor, for whose benefit these unions or cooperative banks are designed, the guaranty fund above described was devised so as to offset any tendency to instability entailed by that feature. In the New England savings-bank system the law fixes a very small percentage of the annual net earnings as a contribution to such a fund, the total amount of which is only from 5 to 15 per cent of the deposits held. This fund is to meet possible losses in the investments of the banks.

In our cooperative people's banks the same fund has an additional object, being regarded as the real nonwithdrawable capital of the society, and this explains why it is allowed to accumulate until it reaches an amount equal to the total of the paid-up shares.

Thus, by perseverance and stringent provision for the stability of the institution, the laboring and farming classes are enabled to create a treasury owned and controlled by themselves, to which they and their descendants may look for credit; ineed, doing along this line what is done in other spheres of activity, as, for instance, in the municipal life, where future generations will enjoy the benefit of all the improvements made by their predecessors.

The guaranty fund has also the advantage of increasing the confidence and the interest felt by the members, on which depend the vitality and the very existence of their association.

One striking feature of these cooperative credit unions is that they are excellent local savings banks, stimulating thrift, bringing out hoarded money, and thus conferring on the general community the benefits resulting from capital properly invested. However small a village may be, it can organize such a union, which will offer to its people all the benefits of the ordinary bank—except, of course, the peculiar advantages derived from its larger sphere of action—and will extend the practice of thrift to almost every home in the immediate locality.

To sum up, the cooperative bank that I have endeavored thus to describe borrows from and lends to its members. It borrows from them by receiving their savings, either in the shape of shares or mere deposits, for thrift must precede credit. This is a fundamental principle which it would be dangerous to depart from, even if it could be done.

The advantages of such cooperative banks are very numerous and far-reaching, among which the following are, perhaps, the most striking:

Their close proximity to the saver and borrower.

Their adaptability to local wants of all kinds, and their ability, through the enjoyment of local confidence, to attract the available resources of the community.

Their familiarity with their clients who are the members, and their influence over them arising from their all being members of the same labor union or residents of the same village, town, or city ward.

Their special mechanism allowing them to make the smallest loans and to undertake transactions of the pet-

tiest kind, in compliance with local needs, preference, indeed, being deliberately given to the humbler demands.

Their ability to assist in a general or particular liquidation of debts, especially in the case of farmers whose property is heavily mortgaged and where the repayment is made burdensome by provisions of an onerous character.

Their ability to work cheaply, almost gratuitously, being thus in a position to supply cheap credit to their members.

Their accumulation of local savings and the profits thereupon, until they form a capital for the benefit of the members and borrowers.

Their ability to act as agents for their members in certain circumstances and outside their restricted field of activity, more especially for the benefit of farmers, whose needs of this kind are greater than those of the workingmen.

Their power of influencing borrowers toward a beneficent use of credit and of supervising the utilization of loans in accordance with contract.

Their tendency to group themselves into federations for mutual help, development, inspection, instruction, and audit.

Their steady and continuous educative influence in matters of thrift, association, and self-help, by their constant presence, their daily object lessons, by their frequent though easy calls upon the activity, thought, and services of their members.

Their tendency to develop high forms of individual capacity, of public life, and of national character, and,

last and most desirable, their powerful influence in calling forth habits of thrift, economy, and prudence, guiding expenditure into productive channels, granting credit for productive and useful purposes only, and in promoting union and associated action among units which, but for them, would be isolated and ineffective.

Being administered by responsible officers of the local population's own choice these local banks, of which everyone can be a member, soon and rightly gain the confidence of everyone. Unlike the ordinary savings banks, they have not a mere slot in their wall through which to receive money, but a mouth wherewith to give advice, a heart wherewith to feel, and a credit organization designed and specially fitted to help by loans the very people who provide the funds. In their keeping the depositor or member—for both are one and the same individual—may, so to speak, see his money, see it safely held, see it laid out profitably in the locality, benefiting the district and producing more money, whereas elsewhere it disappears into the large monetary market, absorbed in huge financial schemes sometimes worked out for the squeezing or the economic detriment of the consumers, while the poor men, the very clients who have contributed to the accumulation of this wealth, are, as a class, the victims of extortionate money lenders. Organized by and entirely under the direct control of the farmers and laborers who are almost the entire *clientèle* of these money lenders, the cooperative banks offer the best means of putting an end to the frightful cancer of usury that is causing so much suffering in this very part of the body politic. It is an

undeniable fact that no law, no matter how stringent or how rigidly enforced, can stamp out or even lessen usury in an appreciable degree. Centuries of experience have demonstrated this truth. Usury exists because there are people who want money, and are ready to borrow it at any price where there is no organized machinery offering it at a reasonable rate. Let these people have their wants provided for in a human and business-like way, and usury will soon disappear as surely as snow melts away in the spring.

The proposal to introduce such an institution into a country often gives rise to objections, which, however, are, as a rule, based upon ignorance or a wrong conception of the real nature of these cooperative credit unions. It is, for example, often alleged that existing banks would suffer from the competition of the newcomer. But is this objection founded upon facts and has actual experience proved it to be correct?

In the first place, this new organization in no way invades the field of activity of the banks; it strikes another soil; a stratum unknown to those financial bodies. Organized to meet the needs of the highest sphere of trade industry, and for the benefit of larger enterprises, the ordinary banks have neither the equipment nor the opportunity to cater to the wants of the classes for which the cooperative banks are exclusively intended. This explains why the money lenders' business is so widespread and usury so prevalent and profitable where such an institution does not exist. People in need of money must go to the usurers for want of a better medium. Expe-

rience has shown in Europe that the banks, even the largest, have not been slow in recognizing this fact and have, therefore, ceased to oppose the cooperative banks, nay, have even very materially aided them.

Experience, too, soon demonstrated another potent fact, namely, that these very modest financial institutions act as excellent feeders to the higher banks, by stimulating and teaching thrift in a sphere inaccessible to the latter or to any other similarly organized institutions, and by depositing the surplus funds that the cooperative banks must keep constantly available and do not utilize in their every-day transactions. I could mention here many of the largest financial institutions of the world that go out of their way to assist in the organization of such parish or cooperative banks, or, when so organized, aid them by special or preferential treatment in order to insure their success and prosperity.

Another objection is that the farming and laboring classes would be unable to work out such a scheme. But why should the farmers, laborers, artisans, and mechanics of America be less intelligent, less able to learn by practice how to manage these unions? Or are they less honest than their brethren of the various European countries, or even East India? Surely not.

Objection might also be based on the shifting character of the population, but that difficulty can be overcome by special precautions and proper safeguards. I feel confident that the genius of our American nations can easily find and apply an adequate remedy to this particular state of things, for, after all, this difficulty had to be faced

to a certain extent by the ordinary banks, and they seem to have succeeded very well. Other means might be devised for the protection of credit unions and be as successful in their way as those chosen by the existing banking institutions.

It may also be argued that these cooperative banks would compete with the savings banks already in the field and tend to divert their funds into their own treasuries. This is hardly probable. But even if it should so happen, is that a good reason for putting aside a more perfect organization in order to avoid damaging an inferior one; for enriching the usurers by depriving the masses of the people of a means to obtain loans at a fair rate of interest? Surely the savings institutions were established to benefit the people, not to enslave them; in other words, the savings banks were instituted for the public, not the public for the savings banks. But such a fear is absolutely unfounded and need not be considered, for is it not a well-established fact that the more numerous the depositories for savings, the larger the inflow of funds? And why? Because each one of these depositories attracts its own customers, offers special inducements that tend to increase the number of its clients, and, in the end, by the accumulation of small sums, creates an ever growing capital. The savings banks themselves have not competed in a damaging way with the banks previously established, but have, on the contrary, been helpful in teaching thrift, foresight, and providence, and thereby increasing the public wealth. And the same result may confidently be expected from this new system, while its benefits will

be larger, as it covers a larger area than the existing institutions. In fine, it is almost a truism to say that the more numerous and varied a country's savings institutions are, the higher is its development and civilization, for uncivilized nations have none.

The numerous building and loan societies of Massachusetts, together with its large and prosperous so-called "cooperative banks," are doing much good in their own way, but they restrict their activity to one particular class of transactions, namely, the purchasing of a home by the laborer. Why not, as the progressive State of Massachusetts has done, provide for all the various wants of the farmers as well as of the workingmen? Such wants can not be denied in face of the large business done by private money lenders and usurers generally, in spite of stringent laws. Why not adopt an organization that will put at the disposal of the people part of their own savings instead of utilizing them only or mainly for the advantage of large undertakings, while the wealth producers are entirely left to the tender mercy of the sharks?

Anyone who studies the existing financial fabric on this continent, seeing, as he can not fail to do, the almost helpless situation in which the farmers and workingmen are practically left so far as banking credit is concerned, will inevitably come to the conclusion that there is a missing link of a very great importance, and that missing link is the cooperative bank above described.

Such an organization would complete the financial mechanism by meeting, in a systematic way, the wants of the masses of the population, who find themselves

to-day with no organized means for satisfying their economic needs, if we except the item of home building. It would inculcate and stimulate the habit of making small savings; it would educate—teach how capital can be formed gradually by mere cents, how it must be managed, safeguarded, multiplied by useful and provident employment; it would kill usury; it would be an excellent feeder to the ordinary banks, as shown by the practical experience of half a century; it would democratize finance, organize credit, and transform the moral qualities into valuable assets; it would instill habits of foresight, of providence, and of punctuality in promptly paying a debt when due; it would teach honesty, and bring to the man of industrious habits a higher reward than mere wages—the confidence of his fellow-citizens; it would promote the spirit of local enterprise, and facilitate improvements of all kinds; finally, it would obviate the disasters attending panics, since everyone would participate in the management of affairs, through officers representing the free choice of himself and his fellow-members.

Here again experience has shown that such a cooperative union has never been upset by a run; quite the contrary, because such an institution is not practically owned by one or a few individuals possessing the largest number of shares, and thereby having the entire control by the multiplicity of votes based upon shares, but is open to all upon the basis of a perfect equality.

A conclusive experiment has been made on this continent, and the results obtained warrant the belief that such cooperative people's banks would be amply successful

anywhere, provided there be a faithful adherence to the principles laid down.

Levis is a small town of 7,000 inhabitants, situated on the shores of the St. Lawrence, opposite the old city of Quebec. Its population is mostly French Canadian and of the laboring classes. It was here that "La Caisse Populaire de Lévis" was organized on the 6th of December, 1900. It did not, however, commence business until the 23d of January, 1901. Besides the town proper, the enterprise included two neighboring parishes inhabited by farmers, which had been separated from the present town some years before without, however, interrupting the daily intercourse between these farming and urban groups, so that everybody knew everybody else, as if all were still one unit. The object in including these outside parishes was to extend the experiment to a farming community in order to see how the institution would work among both classes.

Started with not a cent in the treasury, its general assets were at the close of its ninth financial year, the 30th of November, 1909, $102,880.35. The total amount of loans had reached $463,070.60, distributed in 3,037 accounts.

The 1,000 members of this cooperative bank, the first of its kind on the continent of America, are proud to say that as yet not one cent has been lost through bad loans or mismanagement. The workingmen and farmers have chosen the managing bodies, have provided the funds, and it was to them that the money was loaned, their honor being in most cases the main security. The total

turnover in these nine years has reached the sum of $617,483.45, with gross profits amounting to $18,697.90, and a total of working expenses of $1,774.74, although there are four branches of joint-stock banks in Levis doing, apparently, very good business. The success of the Levis experiment has spread the idea throughout all French Canada, and in less than two years 32 other similar cooperative banks in as many different places have been organized by the writer at the request of the local population desirous of benefiting by the advantages offered. Twenty-six of these credit unions are working in rural parishes and are doing most useful work both as savings and loan associations. One of them has already a general turnover of $18,727.83 after only ten months of existence. More than 25 others will very soon be organized in the Province of Quebec alone.

Such a cooperative bank exists in Manchester, N. H., among the French-Canadian population, working mostly in the cotton mills of that city.

The movement has spread to the United States, and Massachusetts has enacted a law to further it. Other States seem inclined to follow the good example of Massachusetts and enact laws along the same lines. The prospects are hopeful and promise abundant as well as most beneficial returns for the masses of the rural and working classes.

APPENDIX C.

Statistics from Canada Yearbook, 1908.

APPENDIX C.

[Statistics from Canada Yearbook, 1908.]

(1) GENERAL STATEMENT OF CHARTERED BANKS, 1868–1908.[a]

Calendar year.	Capital paid up.	Notes in circulation.	Total on deposit [b]	Discounts to the people.	Liabilities, [c]	Assets.
1868	$30,507,447	$9,350,646	$33,653,594	$52,299,050	$45,144,854	$79,860,976
1869	30,790,137	9,539,511	40,028,090	56,433,953	50,940,226	86,283,693
1870	33,031,249	15,149,031	48,763,205	66,276,961	65,685,870	103,197,103
1871	37,095,340	20,914,637	56,287,391	84,799,841	80,250,974	125,273,631
1872	45,190,085	25,296,454	61,481,452	106,744,665	90,864,688	148,862,445
1873	54,690,561	27,165,878	65,426,042	119,274,317	98,982,668	166,056,595
1874	60,388,340	27,904,963	77,113,754	131,680,111	116,412,392	187,921,031
1875	64,619,513	23,035,639	74,642,446	136,029,307	104,609,356	186,255,330
1876	66,804,398	21,245,935	72,852,686	127,621,577	99,614,014	183,499,801
1877	65,206,009	20,704,338	74,166,287	125,681,658	99,810,731	181,019,194
1878	63,682,863	20,475,586	70,856,253	119,682,659	95,538,831	175,450,274
1879	62,737,276	19,486,103	73,151,425	113,485,108	96,760,113	173,548,490
1880	60,052,117	22,529,623	85,303,814	102,166,115	111,838,941	184,276,190
1881	59,534,977	28,516,692	94,346,481	116,953,497	127,176,249	200,613,879
1882	59,799,644	33,582,080	110,133,124	140,077,194	149,777,214	227,426,835
1883	61,390,118	33,283,302	107,648,383	143,944,957	145,938,095	228,084,650
1884	61,579,021	30,449,410	102,398,228	130,490,053	137,493,917	219,998,642
1885	61,711,566	30,720,762	104,014,660	126,827,792	138,762,695	219,147,080
1886	61,662,093	31,030,499	111,449,365	132,833,313	146,954,260	228,061,872
1887	60,860,561	32,478,118	112,656,985	139,753,755	149,704,402	230,393,072
1888	60,345,035	32,205,259	125,136,473	141,002,373	163,990,797	243,504,164
1889	60,229,752	32,207,144	134,650,732	149,958,980	173,029,602	253,789,803
1890	59,974,902	32,834,511	135,548,704	153,301,335	173,207,587	254,546,329
1891	60,700,697	33,061,042	148,396,968	171,082,677	187,332,325	269,307,032
1892	61,626,311	33,788,679	166,668,471	193,455,883	208,062,169	291,635,251
1893	62,009,346	33,811,925	174,776,722	206,623,042	217,195,975	302,696,715
1894	62,063,371	31,166,003	181,743,890	204,124,939	221,006,724	307,520,020
1895	61,800,700	30,807,041	190,916,939	203,730,800	229,794,322	316,536,527
1896	62,043,173	31,456,297	193,616,049	213,211,996	232,338,086	320,937,643
1897	62,027,703	34,350,118	211,788,096	212,014,635	252,660,708	341,163,505
1898	62,571,920	37,873,934	236,161,062	223,806,320	281,076,656	370,583,991
1899	63,726,399	41,513,139	266,504,528	251,467,076	318,624,033	412,504,768
1900	65,154,594	46,574,780	305,140,242	279,279,761	356,394,095	459,715,065
1901	67,035,615	50,601,205	[d] 349,573,327	388,299,888	420,003,743	531,829,324
1902	69,869,670	55,412,598	[d] 390,370,493	430,662,670	466,963,829	585,761,109
1903	76,453,125	60,244,072	[d] 424,167,140	472,019,689	507,527,550	641,543,226
1904	79,234,191	61,769,888	[d] 470,265,744	509,011,993	554,014,076	695,417,756
1905	82,655,828	64,025,643	[d] 531,243,476	559,814,918	618,678,633	767,490,181
1906	91,035,604	70,638,870	[d] 605,968,513	655,869,879	713,790,553	878,512,076
1907	95,953,732	75,784,482	[d] 654,839,711	709,975,274	769,026,924	945,685,708
1908	96,147,526	71,401,697	[d] 658,367,015	670,170,833	762,077,184	941,290,619

[a] The statistics of this table are averages computed from the monthly returns in each year.
[b] Including deposits of federal and provincial governments.
[c] Excluding capital and reserves.
[d] Including amounts deposited elsewhere than in Canada, not previously included in deposits.

(2) STATEMENT OF CHARTERED BANKS FOR THE CALENDAR YEARS, 1904–1908.[a]

ASSETS.

Schedule.	1904.	1905.	1906.	1907.	1908.
Balances due from agencies of the banks or from other banks or agencies in the United Kingdom	$7,523,615	$9,960,562	$8,877,979	$6,027,157	$9,828,186
Balances due from agencies of chartered banks or from other banks or agencies elsewhere than in Canada and the United Kingdom	16,817,357	19,201,939	16,801,119	15,363,728	30,822,761
Bank premises	9,720,652	10,707,018	12,844,918	16,248,177	18,744,338
Call and short loans on stocks and bonds in Canada	36,999,790	42,659,144	56,597,649	49,192,291	42,060,715
Call and short loans elsewhere than in Canada	41,212,007	51,452,955	59,363,619	52,907,513	60,704,075
Current loans in Canada	407,475,439	436,659,384	500,770,572	574,784,939	529,320,134
Current loans elsewhere than in Canada	18,665,002	25,097,824	35,777,625	27,340,135	24,383,563
Deposits made with and balances due from other banks in Canada	6,064,286	6,834,816	7,667,093	9,186,472	10,641,722
Deposits with Dominion government for security of note circulation	3,237,891	3,448,463	3,923,531	4,304,524	4,249,367
Dominion notes	33,428,779	38,053,983	40,186,748	46,486,741	56,007,874
Dominion and provincial government securities	10,705,202	8,833,626	9,360,614	9,546,927	9,522,743
Loans to provincial governments	2,465,495	1,960,465	1,353,258	2,183,799	5,542,149
Loans to other banks in Canada	820,508	768,161	2,521,800	2,025,495	7,789,831
Mortgages on real estate sold by banks	761,885	602,524	447,001	407,492	470,441
Municipal securities in Canada and public securities elsewhere than in Canada	15,560,145	18,820,985	20,466,670	21,198,817	19,788,937
Notes of and checks on other banks	19,945,787	22,883,207	27,083,043	29,496,390	27,843,657
Overdue debts	2,194,260	1,985,146	2,007,136	3,566,597	8,100,257
Railway and other bonds, debentures, and stocks	38,779,477	39,974,520	41,225,898	41,239,589	42,651,006
Real estate other than bank premises	739,905	681,628	801,211	923,523	1,416,659
Specie	16,879,092	18,536,340	21,100,833	24,063,779	24,646,402
Other assets	6,321,182	8,367,493	9,439,679	9,191,623	7,295,842
Total assets	695,417,756	767,490,183	878,512,076	945,685,708	941,290,619

LIABILITIES.

Liabilities to shareholders:					
Capital paid up	$79,234,191	$82,655,828	$91,035,604	$95,953,732	$96,147,526
Rest or reserve fund	52,082,335	56,474,124	64,002,266	69,806,892	72,041,265
Total	131,316,526	139,129,952	155,037,870	165,760,624	168,188,791
Other liabilities:					
Balances due to agencies of Canadian banks or to other banks or agencies in the United Kingdom	5,739,709	5,081,798	6,771,683	11,240,826	5,694,437
Balances due to agencies of Canadian banks or to other banks or agencies elsewhere than in Canada and the United Kingdom	1,498,340	1,715,171	2,292,718	4,397,200	3,636,753
Balance due to Dominion government after deducting advances for credits, pay lists, etc	3,349,179	3,107,678	4,636,857	6,379,118	5,775,400
Balance due to provincial governments	5,559,020	7,282,441	8,358,140	10,276,445	10,973,477
Deposits by the public payable on demand in Canada	117,962,023	138,116,550	165,144,569	166,342,144	169,721,755
Deposits by the public payable after notice or on a fixed day in Canada	307,007,192	338,411,275	381,778,705	423,014,657	406,103,063
Deposits made by and balances due to other banks in Canada	4,542,724	5,152,395	5,562,900	6,786,223	7,338,252
Deposits elsewhere than in Canada	36,388,330	44,325,531	46,030,741	58,828,181	65,793,319
Loans from other banks in Canada, secured, including bills rediscounted	823,849	791,236	2,616,806	2,078,923	8,929,166
Notes in circulation	61,769,888	64,025,643	70,638,870	75,784,482	71,401,697
Liabilities not included under foregoing heads	9,373,832	10,668,415	19,939,664	13,898,725	6,709,865
Total	554,014,076	618,678,633	713,790,553	769,026,924	762,077,184
Total liabilities to shareholders, and other liabilities	685,330,602	757,808,585	868,828,423	934,787,548	930,265,975
Excess of assets over all liabilities, undivided profits not included	10,087,154	9,681,598	9,683,653	10,898,160	11,024,644

[a] The statistics of this table are averages computed from monthly returns in each year.

(3) PRINCIPAL ASSETS OF EACH OF THE CHARTERED BANKS OF CANADA, DECEMBER 31, 1908.

Chartered banks.	Specie.	Dominion notes.	Call and short loans in Canada.	Current loans in Canada.	Other assets.	Total assets.
Bank of British North America	$916,328	$1,846,338	$1,288,758	$17,278,656	$22,554,152	$43,884,232
Bank of Hamilton	558,688	2,261,122	2,068,566	18,740,002	10,185,021	33,813,399
Bank of New Brunswick	254,330	484,796	553,974	4,883,939	1,651,199	7,828,238
Bank of Nova Scotia	2,399,623	2,598,022	1,968,557	13,561,217	24,219,229	44,746,648
Bank of Montreal	6,109,969	9,997,919	----------	74,051,785	106,963,055	197,122,728
Bank of Ottawa	775,146	2,918,531	837,891	20,586,837	8,431,452	33,549,857
Bank of Toronto	714,514	2,880,431	1,853,017	26,977,711	7,329,618	39,755,291
Banque d'Hochelaga	282,403	1,115,911	615,031	13,338,795	4,428,895	19,781,035
Banque Nationale	138,146	494,140	935,730	10,923,915	2,133,849	14,625,780
Banque Provinciale du Canada	67,414	36,977	948,653	2,674,167	2,418,015	6,145,226
Banque de St. Hyacinthe [a]	----------	----------	----------	30,698	1,060,793	1,091,491
Banque de St. Jean [b]	16	----------	----------	1,024	144,738	145,778
Canadian Bank of Commerce	4,471,001	9,137,358	7,327,600	63,893,420	36,425,865	121,255,244
Dominion Bank	1,138,165	4,766,913	3,261,660	30,960,438	10,754,205	50,881,381
Eastern Townships Bank	413,940	718,006	920,477	13,985,468	5,503,001	21,540,892
Farmers Bank of Canada	7,238	63,812	591,518	782,600	880,059	2,325,227
Home Bank of Canada	53,467	502,085	2,157,297	3,489,963	1,508,977	7,711,789
Imperial Bank of Canada	1,128,575	6,050,176	3,385,994	25,168,246	13,128,014	48,861,005
Merchants Bank of Canada	1,559,004	2,785,804	2,313,196	29,558,357	21,159,995	57,376,356
Metropolitan Bank	102,813	745,527	845,145	3,991,635	2,239,589	7,924,709
Molsons Bank	556,016	2,026,144	2,742,514	22,414,213	7,623,368	35,362,255
Northern Crown Bank	179,742	1,233,307	140,713	8,202,901	3,391,952	13,148,615
Quebec Bank	378,545	438,531	1,384,182	9,878,805	2,748,986	14,829,049
Royal Bank of Canada	3,221,717	3,760,344	1,936,986	21,411,972	20,139,191	50,470,210
St. Stephens Bank	9,563	21,156	10,000	596,020	215,399	852,138
Sovereign Bank of Canada [c]	178	1,869	225,792	2,401,116	6,423,180	9,055,135
Standard Bank of Canada	319,042	1,110,881	1,433,647	13,008,731	4,826,570	20,698,871
Sterling Bank of Canada	31,054	785,596	875,494	3,076,295	1,230,679	5,999,118
Traders Bank of Canada	400,327	2,632,234	1,871,773	23,512,673	6,442,583	34,859,590
Union Bank of Canada	560,215	3,805,238	1,088,330	19,371,508	8,389,901	33,215,252
Union Bank of Halifax	300,319	849,017	133,629	8,561,599	4,339,519	14,184,083
United Empire Bank of Canada	14,072	21,564	111,650	1,254,973	664,336	2,066,595
Western Bank of Canada	37,504	35,011	----------	3,236,170	2,936,388	6,245,073
Total	27,099,074	66,124,760	43,827,774	511,808,909	352,491,773	1,001,352,290

[a] Suspended payment July 25, 1908. [b] Went into liquidation April 28, 1908. [c] Is being wound up.

(4) PRINCIPAL LIABILITIES OF EACH OF THE CHARTERED BANKS OF CANADA, DECEMBER 31, 1908.

Chartered banks.	Capital paid up.	Rest or reserve fund.	Notes in circulation.	Deposited by the public in Canada.	Other liabilities.	Total liabilities.[a]	Rate of last dividend.
							Per cent.
Bank of British North America	$4,866,666	$2,336,000	$2,868,943	$23,315,129	$8,183,240	$34,367,312	7
Bank of Hamilton	2,473,960	2,473,960	2,145,498	25,738,886	504,556	28,388,940	10
Bank of New Brunswick	737,500	1,291,875	679,455	4,798,583	294,649	5,771,687	13
Bank of Nova Scotia	3,000,000	5,400,000	2,888,974	24,269,301	8,918,070	36,076,345	12
Bank of Montreal	14,000,000	12,000,000	11,068,327	117,488,783	41,331,941	169,889,051	10
Bank of Ottawa	3,000,000	3,000,000	2,634,405	23,884,489	537,919	27,056,813	10
Bank of Toronto	4,000,000	4,500,000	3,019,219	27,236,893	552,283	30,808,395	10
Banque d'Hochelaga	2,500,000	2,150,000	1,978,756	12,692,474	376,408	15,047,638	8
Banque Nationale	1,886,491	900,000	1,723,302	9,216,260	602,489	11,542,451	7
Banque Provinciale du Canada	1,000,000	300,000	931,313	3,525,682	377,953	4,834,948	5
Banque de St. Hyacinthe [b]	339,375	75,000	28,535	645,086	8,116	681,737	.....
Banque de St. Jean [c]	.....	.....	10,659	295,418	72,503	378,580	.....
Canadian Bank of Commerce	10,000,000	6,000,000	8,596,268	78,362,075	17,891,751	104,850,094	8
Dominion Bank	3,983,392	4,981,731	3,087,539	37,801,510	476,105	41,365,154	12
Eastern Townships Bank	3,000,000	2,000,000	2,307,455	13,702,189	181,174	16,190,818	8
Farmers Bank of Canada	555,254	.....	308,745	1,382,816	49,622	1,741,183	4
Home Bank of Canada	929,033	297,705	915,190	5,451,158	76,582	6,442,930	6
Imperial Bank of Canada	5,000,000	5,000,000	3,345,970	33,940,590	764,187	38,050,747	11
Merchants Bank of Canada	6,000,000	4,000,000	4,267,423	38,697,788	3,901,869	46,867,080	8
Metropolitan Bank	1,000,000	1,000,000	918,922	4,681,349	31,064	5,631,335	8
Molsons Bank	3,500,000	3,500,000	2,677,423	24,496,776	646,077	27,820,276	10
Northern Crown Bank	2,201,568	50,000	1,688,800	8,419,161	789,087	10,897,048	5
Quebec Bank	2,500,000	1,250,000	1,583,773	8,732,145	415,474	10,731,392	7
Royal Bank of Canada	3,900,000	4,600,000	3,556,432	27,624,130	10,610,963	41,791,525	10
St. Stephens Bank	200,000	52,500	179,750	384,256	22,492	586,498	5
Sovereign Bank of Canada [d]	3,000,000	.....	104,025	615,541	5,891,312	6,610,878	.....
Standard Bank of Canada	1,560,110	1,760,110	1,261,147	15,738,811	114,912	17,114,870	12
Sterling Bank of Canada	812,630	183,749	704,293	4,140,200	109,735	4,954,228	5
Traders Bank of Canada	4,353,592	2,000,000	2,600,905	25,158,704	470,035	28,229,644	7
Union Bank of Canada	3,201,210	1,800,000	2,936,583	23,704,908	1,374,352	28,015,843	7
Union Bank of Halifax	1,500,000	1,175,000	1,429,835	8,020,622	1,888,102	11,338,559	8
United Empire Bank of Canada	501,792	.....	129,315	1,082,166	339,762	1,551,243	4
Western Bank of Canada	555,000	350,000	481,055	4,655,086	155,285	5,291,426	7
Total	96,457,573	74,427,630	73,058,234	639,899,365	107,959,069	820,916,668	.....

[a] Exclusive of capital stock and rest or reserve fund.
[b] Suspended payment July 25, 1908.
[c] Went into liquidation April 28, 1908.
[d] Is being wound up.

(5) AVERAGE MONTHLY CIRCULATION OF DOMINION NOTES, BY DENOMINATIONS, 1884–1908.[a]

Calendar year.	Denominations.						Total average.
	$5,000.	$500 and $1,000.	$50 and $100.	$4, $5, $10, and $20.	$1 and $2.	Fractionals.	
1884	----------	$9,507,000	$760,353	$518,409	$5,454,760	$183,030	$16,423,552
1885	----------	9,885,042	612,646	583,480	5,310,554	177,118	16,568,840
1886	----------	9,739,375	557,123	525,471	5,472,393	164,986	16,459,348
1887	----------	7,961,417	503,446	497,106	5,976,094	162,838	15,100,901
1888	----------	9,027,208	451,225	492,788	6,094,316	167,282	16,232,819
1889	----------	8,450,542	412,275	471,617	6,127,394	170,470	15,632,298
1890	----------	8,211,000	350,000	434,760	6,331,600	174,000	15,501,360
1891	----------	9,050,000	280,860	449,644	6,412,825	181,130	16,374,459
1892	----------	9,895,000	299,988	473,290	6,551,283	187,880	17,407,441
1893	----------	11,280,125	250,820	451,061	6,788,000	196,000	18,966,006
1894	----------	13,297,166	227,070	403,334	6,615,048	206,550	20,749,168
1895	----------	13,834,666	232,300	369,439	6,743,555	217,802	21,397,762
1896	[b] $2,285,000	12,135,875	219,600	348,827	6,980,012	227,390	22,196,704
1897	4,891,250	10,309,208	241,821	322,751	7,237,520	236,156	23,238,706
1898	6,410,417	8,137,833	216,883	364,992	7,851,532	248,122	23,229,779
1899	7,474,583	8,130,083	211,196	434,286	8,524,327	267,175	25,041,650
1900	8,480,000	7,854,500	218,921	395,573	9,315,354	286,117	26,550,465
1901	8,862,083	9,363,375	232,142	524,480	9,757,778	312,911	29,052,769
1902	11,358,750	9,010,667	229,858	639,937	10,463,359	338,842	32,041,413
1903	18,004,167	7,649,000	189,121	558,987	11,409,251	352,934	38,163,460
1904	23,460,000	6,941,167	150,758	456,313	11,995,396	362,203	43,365,837
1905	28,300,417	6,785,792	128,554	493,264	12,630,271	376,359	48,714,657
1906	30,019,583	6,919,583	122,883	392,779	13,997,323	407,381	51,859,532
1907	36,163,667	6,763,625	116,921	334,589	15,188,627	450,011	59,017,440
1908	45,739,583	7,143,125	105,154	214,831	14,910,365	489,886	68,602,944

[a] The statistics of this table are averages computed from the monthly returns of each year

[b] Three months only.

(6) BUSINESS OF THE DOMINION GOVERNMENT SAVINGS BANKS, 1868–1908.

Fiscal year.	Cash deposits in year.	Interest on total deposits.	Total cash and interest.	Withdrawals in year.	At credit of depositors June 30.
1868	$292,994	$66,078	$359,072	$297,900	$1,483,219
1869	323,138	69,528	392,666	281,360	1,594,525
1870	462,481	77,128	539,609	311,564	1,822,570
1871	556,669	88,256	644,925	395,458	2,072,037
1872	1,085,289	100,836	1,186,125	1,142,346	2,154,234
1873	2,442,917	93,892	2,536,809	1,732,873	2,958,170
1874	3,207,689	154,491	3,362,180	2,564,996	4,005,295
1875	3,570,289	177,896	3,748,185	3,508,389	4,245,091
1876	3,222,672	178,572	2,951,244	3,343,170	4,303,165
1877	3,911,576	190,156	4,101,732	3,574,204	4,830,693
1878	5,366,358	232,816	5,599,174	4,687,338	5,742,729
1879	4,549,290	242,665	4,791,955	4,431,991	6,102,492
1880	5,240,195	268,729	5,508,924	4,504,129	7,107,287
1881	6,494,640	323,874	6,818,514	4,297,356	9,628,445
1882	7,090,434	411,949	7,502,383	4,835,828	12,295,000
1883	7,067,390	505,388	7,572,778	5,624,908	14,242,870
1884	6,807,632	576,653	7,384,285	5,655,171	15,971,984
1885	7,170,480	645,707	7,816,187	5,899,635	17,888,536
1886	7,513,069	728,546	8,241,615	6,115,708	20,014,442
1887	6,134,911	795,164	6,930,075	5,609,992	21,334,525
1888	3,541,144	813,349	4,354,493	5,006,992	20,682,025
1889	3,645,188	777,300	4,422,488	5,159,579	19,944,935
1890	3,086,935	688,417	3,775,352	4,698,476	19,021,812
1891	2,858,535	614,094	3,472,629	4,833,062	17,661,378
1892	3,155,344	585,989	3,741,333	4,171,565	17,231,146
1893	3,410,093	588,319	3,998,412	3,533,094	17,696,464
1894	3,400,456	601,420	4,001,876	3,920,196	17,778,144
1895	3,242,278	594,283	3,836,561	3,969,749	17,644,956
1896	3,293,378	598,445	3,891,823	3,670,391	17,866,389
1897	3,186,581	597,580	3,784,161	5,096,403	16,554,147
1898	2,705,020	463,313	3,168,333	4,092,309	15,630,171
1899	2,514,398	449,166	2,963,564	3,123,635	15,470,100
1900	2,784,581	452,400	3,236,981	3,064,825	15,642,257
1901	2,881,477	462,809	3,344,286	2,888,406	16,098,136
1902	2,971,583	473,334	3,444,917	3,425,284	16,117,769
1903	3,051,868	475,244	3,527,112	3,129,088	16,515,793
1904	2,879,793	483,232	3,363,025	3,140,084	16,738,734
1905	2,817,267	489,322	3,306,589	3,396,198	16,649,126
1906	2,744,818	473,281	3,218,099	3,693,101	16,174,124
1907 (9 months)	1,981,286	333,866	2,315,152	3,400,702	[a] 15,088,574
1908	2,457,330	436,539	2,893,869	2,965,582	[a] 15,016,861
Totals for 41 fiscal years	145,119,466	17,380,026	162,499,492	149,193,037	[b] 15,016,861

[a] March 31

[b] This amount includes $1,422,047 at credit of depositors June 30, 1867, together with $38,418 at credit of New Brunswick account in 1871 and $249,941 at credit of Prince Edward Island account in 1871.

(7) BUSINESS OF THE POST-OFFICE SAVINGS BANKS, 1868–1908.

Fiscal year.	Savings banks at end of fiscal year.	Deposits received in year.	Transferred from government savings banks to post-office savings banks.	Interest on deposits in year.	Total cash and interest.	Amount withdrawn in year.	Amount at credit of open accounts at end of year.	Open accounts at end of year.
1868 [a]	81	$212,507	----------	$939	$213,446	$8,857	$204,589	2,102
1869	213	927,885	----------	21,095	948,980	296,754	856,814	7,212
1870	226	1,347,901	----------	48,689	1,396,590	664,556	1,588,849	12,178
1871	230	1,917,576	----------	84,274	2,001,850	1,093,439	2,497,260	17,153
1872	235	2,261,631	----------	116,175	2,377,806	1,778,565	3,096,500	21,059
1873	239	2,306,918	----------	126,933	2,433,851	2,323,299	3,207,052	23,526
1874	266	2,340,284	----------	126,273	2,466,557	2,468,643	3,204,965	24,968
1875	268	1,942,346	----------	120,758	2,063,104	2,341,979	2,926,090	24,294
1876	279	1,726,204	----------	110,116	1,836,320	2,021,458	2,740,953	24,415
1877	287	1,521,000	----------	104,068	1,625,068	1,726,083	2,639,937	24,074
1878	295	1,724,371	----------	103,834	1,828,205	1,713,659	2,754,484	25,535
1879	297	1,973,243	----------	110,913	2,084,156	1,733,449	3,105,191	27,445
1880	297	2,720,216	----------	136,075	2,856,291	2,015,813	3,945,669	31,365
1881	304	4,175,042	----------	184,905	4,359,947	2,097,389	6,208,227	39,605
1882	308	6,435,989	----------	291,065	6,727,054	3,461,619	9,473,662	51,463
1883	330	6,826,266	----------	407,305	7,233,571	4,730,995	11,976,237	61,059
1884	343	6,441,439	----------	477,487	6,918,926	5,649,611	13,245,553	66,682
1885	355	7,098,459	----------	539,561	7,638,020	5,793,032	15,090,540	73,322
1886	392	7,645,227	----------	607,075	8,252,302	6,183,471	17,159,372	80,870
1887	415	8,272,041	----------	692,404	8,964,445	6,626,068	19,497,750	90,159
1888	433	7,722,330	$217,385	765,639	8,705,354	7,514,072	20,689,033	101,693
1889	463	7,926,634	1,085,980	841,922	9,854,536	7,532,146	23,011,423	113,123
1890	494	6,599,896	167,502	786,875	7,554,273	8,575,042	21,990,653	112,321
1891	634	6,500,372	389,169	734,431	7,623,972	7,875,978	21,738,648	111,230
1892	642	7,056,002	----------	734,591	7,790,593	7,230,839	22,298,402	110,805
1893	673	7,708,888	----------	777,483	8,486,371	6,631,579	24,153,194	114,275
1894	699	7,524,286	218,174	835,800	8,578,260	7,473,585	25,257,868	117,020
1895	731	7,488,028	493,889	876,049	8,857,966	7,310,292	26,805,542	120,628
1896	755	8,138,947	449,982	944,525	9,533,454	7,406,066	28,932,930	126,442
1897	779	8,223,000	1,856,474	1,024,512	11,103,986	7,656,087	32,380,829	135,737
1898	814	9,183,693	786,868	982,726	10,953,287	8,853,178	34,480,938	142,289
1899	838	8,310,630	----------	1,001,900	9,312,530	9,021,863	34,771,605	142,141
1900	847	10,448,485	141,172	1,049,699	11,639,356	8,903,505	37,507,456	150,987
1901	895	11,091,099	----------	1,126,952	12,218,051	9,774,695	39,950,813	157,368
1902	915	11,382,035	415,508	1,188,925	12,986,468	10,617,071	42,320,210	162,761
1903	934	12,060,825	----------	1,254,048	13,314,873	11,379,757	44,255,327	167,023
1904	961	11,737,940	----------	1,309,567	13,047,507	11,883,128	45,419,706	168,572
1905	989	10,504,430	252,774	1,320,512	12,077,716	12,129,101	45,368,321	165,518
1906	1,011	10,805,458	559,593	1,328,206	12,693,257	12,324,529	45,736,488	164,542
1907 (9 months)	1,043	8,803,503	1,216,169	1,027,834	11,047,506	9,330,766	47,453,228	167,285
1908	1,084	12,293,274	59,244	1,369,405	13,721,923	13,610,866	47,564,284	165,691
Totals for 41 fiscal years.	----------	261,326,300	8,309,883	25,691,545	295,337,728	257,762,884	----------	----------

[a] Three months only.

NOTE.—The fiscal year of the Dominion for 1868–1906 ended June 30, and since that date it ends March 31.

(8) TOTAL BUSINESS OF POST-OFFICE AND DOMINION GOVERNMENT SAVINGS BANKS, 1868–1908.

Fiscal year.	Cash deposits in year.	Interest on total deposits.	Total cash and interest.	Withdrawals in year.	At credit of depositors June 30.
1868	$505,501	$67,017	$572,518	$306,757	$1,687,808
1869	1,251,023	90,622	1,341,645	578,114	2,451,335
1870	1,810,382	125,817	1,936,199	976,119	3,411,419
1871	2,474,245	172,530	2,646,775	1,488,897	4,569,297
1872	3,385,338	217,010	3,602,348	2,920,911	5,250,734
1873	4,749,835	220,825	4,970,660	4,056,172	6,165,222
1874	5,797,914	280,764	6,078,678	5,033,639	7,210,261
1875	5,512,635	298,654	5,811,289	5,850,368	7,171,181
1876	4,948,877	288,688	5,237,565	5,364,628	7,044,118
1877	5,432,576	294,224	5,726,800	5,300,287	7,470,631
1878	7,090,729	336,651	7,427,380	6,400,997	8,497,013
1879	6,522,533	353,578	6,876,111	6,165,441	9,207,683
1880	7,960,411	404,804	8,365,215	6,519,942	11,052,956
1881	10,669,682	508,779	11,178,461	6,394,745	15,836,672
1882	13,526,422	703,014	14,229,436	8,297,446	21,768,662
1883	13,893,656	912,693	14,806,349	10,355,903	26,219,108
1884	13,249,071	1,054,140	14,303,211	11,304,782	29,217,537
1885	14,268,939	1,185,267	15,454,206	11,692,666	32,979,076
1886	15,158,296	1,335,620	16,493,916	12,299,179	37,173,814
1887	14,406,952	1,487,569	15,894 521	12,236,060	40,832,275
1888	11,480,859	1,578,988	13,059,847	12,521,064	41,371,058
1889	12,657,802	1,619,222	14,277,024	12,691,725	42,956,358
1890	9,854,333	1,475,292	11,329,625	13,273,518	41,012,465
1891	9,748,076	1,348,525	11,096,601	12,709,040	39,400,026
1892	10,211,345	1,320,580	11,531 925	11,402,404	39,529,548
1893	11,118,981	1,365,802	12,484 783	10,164,673	41,849,658
1894	11,142,916	1,437,220	12,580,136	11,393,782	43,036,012
1895	11,224,195	1,470,332	12,694 527	11,280,041	44,450,499
1896	11,882,307	1,542,970	13,425,277	11,076,457	46,799,319
1897	13,266,055	1,622,092	14,888,147	12,752,490	48,934,976
1898	12,675,591	1,446,039	14,121 630	12,945,487	50,111,119
1899	10,825,028	1,451,066	12,276,094	12,145,498	50,241,715
1900	13,374,238	1,502,099	14,876,337	11,968,330	53,149,722
1901	13,972,574	1,589,761	15,562 335	12,663,100	56,048,957
1902	14,769,126	1,662,258	16,431,384	14,042,355	58,437,987
1903	15,112,695	1,729,293	16,841,988	14,508,845	60,771,129
1904	14,617,733	1,792,799	16,410,532	15,023,212	62,158,450
1905	13,574,471	1,809,834	15,384,305	15,525,298	62,017,457
1906	14,109,869	1,801,487	15,911,356	16,017,631	61,911,182
1907 (9 months)	12,000,958	1,361,700	13,362,658	12,731,468	[a] 62,541,802
1908	14,809,848	1,805,944	16,615,792	16,576,448	[a] 62,581,145
Totals for 41 fiscal years	415,044,018	43,071,572	458,115 590	396,955,921	[b] 62,581,145

[a] March 31.

[b] This includes the amount at credit of depositors June 30, 1867.

APPENDIX D.

Specimen Forms used by Branches in Reports to Head-office.

31870—10——12

I.

QUARTERLY STATEMENT OF PROFITS. .....BRANCH.

ABSTRACT OF CHARGES ACCOUNT FROM DATE OF .....TO.....19....

Salaries, viz:	Months at $	per annum.....
	" $	"
	" $	"
	" $	"
	" $	"
	" $	"
	" $	"
	" $	"
Rent of Office		
Taxes..... { Office		
Taxes..... { Officers		
Insurance		
Water		
Fuel :—Wood.....		
Coal		
Light.....		
Repairs.....		
Office Furniture.....		
Cleaning Office.....		
Stationery.....		
Subscriptions to Newspapers, Books, etc		
Commercial Agency.....		
Rent and Depreciation of Office Furniture.....		
Rent of Telephone		
Clearing House Expenses..		
Advertising		
Postage		
Telegraph Messages.....		
Telephone "		
Travelling Expenses		
Express and Freight Charges on Stationery, etc.....		
Street Car Tickets		
Laundry.....		
Sundries (to be detailed)		
Total.....		($)
Less Telegraph Messages Recovered		
" Telephone " "		
" Postage Recovered		
" Rent of Offices, sublet.....		
Received from		
Transferred to Profit and Loss Account.....		($)

AVERAGE BALANCE OF SAVINGS, Showing Min. Monthly Balance.

Date.	Amount.
Total	
Average ...	
Interest Accrued allowed for Savings to date, days @	
Deduct Interest paid since ..	
Amount reserved........	

ADJUSTMENT OF RESERVED INTEREST ACCOUNT.

	Dr.	Cr
Balance of Account..		
Reserved for Deposit Receipts as per Statement............................		
" for Current Accounts "		
Balance....		

DISCOUNT AND INTEREST ACCOUNT.

Total Discount on Local Bills..		
" " " Bills Remitted..		
" Interest on Demand Notes..		
" " " Produce Notes..		
" " " Overdrawn Current Accounts........................		
" " Cr. on Overdue and Past Due Bills........................		
" " " Cash Items and Items held in Cash..................		
" Rebate on Bills Discounted..		
Balance....		

EXCHANGE AND COMMISSION ACCOUNT.

Total Commission on Bills Remitted..		
" " " Cash Items..		
" " " Collections..		
" Exchange on Drafts Sold..		
" Amount paid for Collection of Bills................................		
Balance....		

MANAGER'S REMARKS.

II.

STATEMENT OF PROFIT AND LOSS FOR QUARTER ENDING.

....

....BRANCH.

TOTAL AMOUNT due to DEPOSITORS..	$	Local Bills........	$
TOTAL AMOUNT OF DEPOSITS *not* bearing interest........................	$	Bills Remitted....	$
AVERAGE BALANCE BRANCH CLEARINGS ACCOUNT..............................	$	Overdue Bills.....	$
TOTAL LOANS..	$	Past Due Bills....	$

PROFIT AND LOSS ACCOUNT.	Debit.	Credit.
Balance of—		
Discount and Interest Account..		
Exchange and Commission Account..		
Reserved Interest Account, Adjusted..		
Charges Account..		
TOTAL PROFITS FOR QUARTER..		

INTEREST ACCRUED ON CURRENT ACCOUNTS.

NAME.	Average Cr. Bal.	Rate.	Accrued Interest.	NAME.	Average Cr. Bal.	Rate.	Accrued Interest.
				Forward......................			

III.

BALANCE OF DEPOSIT RECEIPTS.

SHOWING INTEREST ACCRUED TO DATE.

No.	When issued.	NAME.	Amount.	No. of days.	Rate.	Interest.

IV.

INTEREST ON DEMAND NOTES WITH PAYMENTS.

When discounted.	No.	Amount.	Date of payments.	Payments.	Balance.	Days.	Rate.	Interest.	Date interest charged.

V.

RETURN OF THE LIABILITIES AND ASSETS OF

.....BRANCH

AS ON THE.....DAY OF.....19

	LIABILITIES.		
2.	Due to Dominion Government.....		
3.	Due to Provincial Governments.....		
4.	Deposits by the Public, payable on demand, in Canada.....		
5.	Deposits by the Public, payable after notice or on a fixed day in Canada.....		
	Drafts issued account.....	$	
	Balance at Credit of Branch Clearings Account.....	$	
8.	Deposits made by, and Balances due to, other Banks in Canada.....		
9.	Balances due to Agencies of the Bank in the United Kingdom.....		
10.	Balances due to Agencies of the Bank elsewhere than in Canada and the United Kingdom.....		
	Balance at Credit of Interest and Exchange Accounts.....		
			$
	ASSETS.		
	Cash per Specification:		
	Specie.....	$	
	Legals.....	$	
	Notes of this Bank.....	$	
	Notes of other Banks.....	$	
	Cheques of other Banks.....	$	
	Items held in Cash.....	$	
	Cash Items Account:		
	Parcels, Checks, and Bank Drafts.....	$	
	Sight and Demand Drafts.....	$	
	Balance at Debit Branch Clearing Account.....		
6.	Deposits made with, and balances due from, other Banks in Canada.....		
7.	Balances due from Agencies of the Bank in the United Kingdom.....		
8.	Balances due from Agencies of the Bank elsewhere than in Canada and the United Kingdom.....		
12.	Call and Short Loans on Stocks and Bonds in Canada.....		
14.	Current Loans in Canada.....		
18.	Overdue Debts.....		
19.	Real Estate, other than Bank Premises.....		
20.	Mortgages on Real Estate sold by the Bank.....		
22.	Other Assets not included under the foregoing heads.....		
	Charges Account.....		
	Balance at Debit of Reserved Interest Account.....		
			$

We declare that the above return is made up from the books of this office, and that to the best of our knowledge and belief, it is correct, and shows truly the financial position of the branch.

.....*Manager.*

.....*Accountant.*

VI.

FOREIGN EXCHANGE ACCOUNT.

Balance at Credit of Account			$	
Total Exchange on U. S. Drafts sold				
" " " Sterling " "				
" Commission on U. S. Cash Items				
" " " " Collections				
" Exchange on Sterling "				
" " " Bills of Exchange bought				
" " " Continental Bills of Exchange				
Total Debit Exchange on Bills of Exchange bought, and London Agent's charges (Rebates, Stamps, Etc)				
Total paid for Collection Currency Bills, Discount on New York Funds, etc				
Amount Reserved for London Agents' Charges:				
For Rebates	£			
" Interest on Overdue Account	£			
" Commission on Demand Drafts, Cables, etc	£			
" " " Sixty Day Drafts	£			
" " " Commercial Credits	£			
" Stamps	£			
" to cover London Balance Cr	£	@	£	
			£	$
Less—				
Premium London Balance Dr	£	@		
Paris Exchange adjusted				
Berlin " "				
Naples " "				
Balance				
				$

Walter C. Clephane

61ST CONGRESS, 2d Session | SENATE | DOCUMENT No. 332

NATIONAL MONETARY COMMISSION

The History of Banking in Canada

BY

ROELIFF MORTON BRECKENRIDGE

Presented by MR. BURROWS

JANUARY 28, 1910.—Ordered to be printed

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THE HISTORY OF BANKING IN CANADA.[a]

I.—The Earliest Banks.

Efforts to introduce the practice of banking into the British North American provinces were put forth as early as 1792. The "Canada Banking Company," then organized by certain English firms and Montreal merchants, was not destined long to survive its origin, although one at least of its 5-shilling notes which has been preserved (No. 6803) is proof that it exercised the function of issue. It seems to have left little trace, either in men's memories or in the records of the time.

Twenty-five years had passed before the next considerable project of a bank of issue, discount, and deposit was

[a] Authorities and Sources: By far the most accurate, painstaking, and thorough discussion of the development here to be reviewed is in the series of chapters contributed by Professor Adam Shortt, sometime of Queen's University, Kingston, Ontario, to the *Journal of the Canadian Bankers' Association*, Toronto (later Montreal), 1896–1905. Cited more particularly, these are:

"The Early History of Canadian Banking," Vol. IV, 1896–1897, Nos. 1, 2, 3, and 4; Vol. V, 1897, No. 1.

"Canadian Currency and Exchange under French Rule," Vol. V, 1898, Nos. 3 and 4; Vol. VI, 1898–1899, Nos. 1, 2, and 3.

"The History of Canadian Currency, Banking, and Exchange," Vol. VII, 1900, Nos. 3 and 4; Vol. VIII, 1900–1901, Nos. 1, 2, 3, and 4; Vol. IX, 1901–1902, Nos. 1, 2, 3, and 4; Vol. X, 1902–1903, Nos. 1, 2, 3, and 4; Vol. XI, 1903–1904, Nos. 1, 2, 3, and 4; Vol. XII, 1904–1905, Nos. 1, 3, and 4; Vol. XIII, 1905–1906, Nos. 1, 2, 3, and 4; Vol. XIV, 1906, No. 1.

A preliminary survey of the more accessible material was undertaken by the present writer in "The Canadian Banking System, 1817–1890,"

brought to the point of opening for business. This was in the province of Lower Canada and in the city of Montreal. For lack of legislation giving them corporate powers, the promoters of the bank began their work under articles of association, and so worked until a provincial charter was obtained in 1822. The initial paid-in capital of the first bank was £25,000 currency, or about $100,000. Like action to that of the Montreal Bank—the name of the new organization—was taken in Quebec by those who formed the Quebec Bank the following year, and by another group of Montreal proprietors, a number of them Americans or persons interested in the American trade, under the style of the Bank of Canada.

published in the *Journal of the Canadian Bankers' Association*, Vol. II, Toronto, 1894–1895, and in the *Publications of the American Economic Association*, Vol. X, Nos. 1, 2, and 3, New York, 1895. A detailed bibliography was printed as an appendix to that dissertation.

Illuminating discussion of the recent history of the Canadian system is available in the pages of the *Journal of the Canadian Bankers' Association*, published quarterly since 1893. A good part of the work by GEORGE HAGUE, "Banking and Commerce," New York, 1908, is concerned with episodes of the Canadian history or illustrates the organization and operation of the Canadian banks. The administrative technique—the internal regulation—of these corporations is well described by H. M. P. Eckhardt in his "Manual of Canadian Banking," Toronto, 1909. For the Canadian bank act in the light of judicial interpretation there is nothing better than the copious and learned annotation of Justice J. J. MACLAREN, "Banks and Banking," Toronto, 1908. As introduction to this work there has been printed one of the admirable addresses of Dr. Byron E. Walker, who, with George Hague and James B. Forgan, has done much toward acquainting American bankers of the peculiarities and advantages of the Canadian system.

The present paper is based upon the session laws and legislative documents of the several provinces, and of the Dominion, the parliamentary debates, where reports were accessible, contemporary newspapers, memoirs, and pamphlets, and in respect of recent history, upon the oral accounts of many who had knowledge of the events detailed. Grateful acknowledgment is owing, as well for this last assistance, as to the researches of Professor Shortt into difficult phases of the earlier history.

The successful operation of the Bank of the United States in the country to the south, the scant supply of currency in the colonies and the variety, in point both of origin and of condition, of such coin as was in circulation, the nuisance of promissory notes and merchants' *bons*, issued or used without lawful authority in substitution for coin, and a lack of adequate capital to handle the colonies' trade, to develop their farms, fisheries, and forests, or to expand their exports, had all prompted much discussion of banks some years before any was actually begun. It is of record that even in 1767 the authorities of Lower Canada were asked to grant a monopoly of the issue of *bons* or due-bills. Fifty thousand pounds were subscribed in 1801 toward a projected bank in Halifax, the plan failing because those interested sought monopoly privileges from the legislature. In 1807, Montreal and Quebec merchants joined in petitioning their legislature for a bank charter, and in the session of the assembly the following year a bill to incorporate divers persons as the Bank of Canada reached the stage of printing. At Kingston, Upper Canada, a similar movement was begun in 1810, but the effort failed. So also one of like nature started in Halifax in 1811.

The first bank of the upper province did not begin business until 1819; the first bank of Nova Scotia in 1825. In Kingston (Upper Canada) as in Montreal, the promoters, failing of incorporation, organized under articles of association, the articles being substantially the same as those adopted by the lower province banks. The Halifax institution was a private partnership. Bills to incor-

porate banks failed in the Nova Scotia legislature in 1822, as well as in 1825.

So far as the records show, the first of any British North American charter granting incorporation to a banking company which not only was passed and approved, but was also actually used by the beneficiaries, was the New Brunswick act of 1820 incorporating the president, directors, and company of the Bank of New Brunswick, with its principal office at St. John. For one reason or another, mostly reasons of domestic or colonial politics, action in this direction proposed to the legislature of Lower Canada in 1815, 1816, 1817, 1818, and 1819, either failed of passing or, passing, failed of the royal assent, without which no legislation of these colonies had force. The bills which finally incorporated the first three banks of Lower Canada were passed by the legislature in 1821 and came into force by proclamation the following year. In the upper province a bill to incorporate a "Bank of Upper Canada" was passed in the session of 1817, but the royal assent was first proclaimed in 1819 after the time limit within which the bank was to begin business had expired.

The legislature proceeded then to pass two charters, the one for the Bank of Kingston, and the other for the Bank of Upper Canada. The second measure, being in the interest of the historical family compact, the dominant political faction, contained a provision for a stock subscription on behalf of the provincial government and was reserved, though the royal assent was eventually proclaimed in 1821. The Kingston charter was forthwith approved by the lieutenant-governor, acting for the Crown, but those interested in it, many of them being

also shareholders in the private bank already established failed to raise the capital of £20,000 required before beginning business, and thus forfeited their rights by non-user until January 1, 1821.

If ever they were published, the precise terms of the earliest Nova Scotian organization are not now accessible. But the articles of the Quebec Bank, of the Bank of Canada, and of the private (afterwards called the "pretended") Bank of Upper Canada, at Kingston, appeared in the newspapers of the day, as did also the document from which they were apparently copied, the articles of the Bank of Montreal. Through the ingenuity and research of the leading authority upon the early history of Canadian banking there has been found, moreover, a copy of the master document of this phase of Canadian banking history—the bill, that is, introduced into the legislature of Lower Canada in 1808. The first charters, of course, are all available in the session laws of the various provinces.

A comparison of the bill of 1808 to the charter of the first bank of the United States has shown beyond all doubt that the essential features of their proposed bank charter were framed by the Canadians quite in the spirit, and for long and significant passages, exactly in the letter of Alexander Hamilton's provisions for a national bank. In the Canadian project, for example, there was an arrangement for a government subscription, the appointment of government directors, and the payment of the government subscription by government debt; for shareholders voting by a scale designed to minimize the influence of large holdings; for excluding

aliens from the directorate; for limiting the holdings of real property; for restriction of the total debts of the corporation to a prescribed proportion of its capital; for the payment of half yearly dividends, if earned, and for the establishment of offices of discount and deposit at places other than the domicile of the bank. While there are abundant changes and additions in the Montreal bill, the language of the American act is followed so literally, even through whole sections, as to preclude any other explanation than that the southern measure, proven successful and advantageous in operation, served as model for the draftsmen of the north. The principal interests concerned in the project of 1808 were much the same as those which finally brought about the organization of the Montreal Bank.

When the legislature was induced to pass charters, some ten or twelve years after the plan of 1808 failed, the feature of government participation was omitted from the Lower Canada charters. But in the upper province, as has been seen, the earlier suggestion was adopted by the members of the family compact. It was provided that in the bank at York (Toronto) for which they got a charter the provincial government should take one-eighth of the whole capital stock. Through a subsequent reduction of the authorized capital the government share became a fourth. In other essentials the articles of 1817 and 1818 and the acts of 1819 to 1822 all show marked similarity to the bill of 1808. The changes from this model are to be found, for the most part, merely in the phraseology or in the stipulations

concerning the capital stock and the par value of the shares into which it was to be divided.

The charter of the Bank of Montreal, for example, recited the formation of an association some years earlier and the desire of the shareholders for incorporation under provisions corresponding as nearly as might be with the terms of their original association. The legislature therefore formed the 144 shareholders into a body corporate and politic, with corporate powers continuing to June 1, 1831. The capital was fixed at £250,000 currency,[a] all to be paid up in annual installments of not more than 10 per cent within nine years from the passing of the act. There were to be 13 directors, only natural-born or naturalized British subjects or residents of Montreal for three, or of the province for seven, years, and holders of at least 10 shares being eligible to the office. Directors were forbidden to act as private bankers during their term of office or to receive any salary except such as might be voted by the shareholders in general meeting. They were authorized to appoint the officers of the bank and to require proper bonds. They were required to declare half yearly dividends out of the funds of the bank, but never so as to lessen or to impair their capital; to keep a register of stock transfers and to present to the annual meetings of shareholders statements of the debts due to and from the bank, amount of bank notes

[a] Halifax currency, 12d.=1s.; 20s.=£1; £1 (approximately)=$4. Through long periods the British pound sterling was conventionally equal to £1 4s. 4d. Halifax currency. There were no coins exactly corresponding to this arbitrary money of account, which was used in Canada down to 1858, but the Spanish and American dollars generally passed for 5s. or a trifle more.

in circulation, amount of probably bad or doubtful debts, and the surplus or profits, if any, remaining after deduction of losses and provision for dividends. Should the debts of the corporation, whether by bond, bill, or note, exceed thrice the amount of its capital stock, over and above a sum equal to such money as might be deposited with the bank for safe-keeping, the directors were to be liable in their natural capacities—severally and jointly, that is—for the excess, not only to the creditors, but to the shareholders as well. As escape from this liability, directors in opposition might publish their protest within eight days of the time the illegal enhancement of indebtedness occurred. The Bank of Montreal and the Bank of Canada shares were rather larger than others of the time, being fixed at £50 each. The Quebec Bank's shares were for £25 each and those of the Bank of Upper Canada were for £12 10s. each.

Shareholders were accorded votes in the meetings of the company in such a proportion that, while the holder of 1 to 2 shares had 1 vote, the holder of 100 shares could have but 20 votes, no matter how many shares he held.[a] After the first election of directors no share was to carry a right to vote unless held for three months prior to a meeting. Transfers of stock were effective only when

[a] Precisely, the scale was this:

	Vote.
For holders of 1 to 2 shares	1
For each 2 over 2 shares	1
For each 4 over 10 shares	1
For each 6 over 30 shares	1
For each 8 over 60 shares	1

The holder of 10 shares would thus have 5 votes; of 30, 10 votes; of 60, 15 votes; and of 100, 20 votes, as in the first Bank of the United States. In the Montreal charter, however, no holder was permitted more than 20 votes.

registered at the bank, and even then not until the transferor should have discharged any debts then due from him to the bank in excess of the value of his remaining shares.

Shares were made personal property and liable to seizure in behalf of *bona fide* creditors other than the bank for debt, it being provided that attachments should be served on the cashier of the bank. Shareholders failing to pay calls were penalized 5 per cent upon the amount of their stock. On the other hand, they acquired the privilege of a liability limited to the amount of their subscriptions in the provision, "no shareholder shall be answerable in his private or natural capacity for the debts of the said corporation." Fifty shareholders, owning 150 shares, might call an extraordinary meeting of the proprietary.

The bank thus created was empowered to sue and to be sued in the corporate name of the company; to issue promissory notes intended for circulation and payable on demand in specie current by the laws of the province; to deal in bills of exchange and in coin and bullion; to discount notes of hand and promissory notes and to receive the discount at the time of negotiating; to sell stock (goods) pledged for money lent and not redeemed, and, finally, by implication, at all events, to receive deposits. Practically all other forms of activity were forbidden. Even the power to take and to hold mortgages, hypothèques, or real property by way of additional security for debt contracted to the bank in the course of its dealings was coupled, wisely enough, to be sure, to a prohibition against lending upon any account, upon mortgage, hypothèque or upon land or other fixed property. The corporation

was forbidden, on pain of forfeiture of its charter, to lend money to a foreign state. It might not raise loans of money or increase its capital; neither was it permitted "upon any pretext whatsoever" to demand or to receive upon its loans or discounts any interest exceeding 6 per cent per annum.

For forging the common seal of the bank or its bonds, bills, and obligations, or for passing them, knowing them to be forgeries, the penalty was imprisonment for not less than six months nor more than six years at hard labor, with the picturesque options, in the discretion of the court, of a public whipping or of standing in the pillory. But for making or engraving plates or tools for counterfeiting the bills of exchange, promissory notes, undertakings, or orders of the bank, the punishment provided was death as a felon without benefit of clergy.

Two other provisions need be cited to make this outline of a characteristic early charter complete. Both saved the rights of the province. The thirteenth section of the act made it plain that the person administering the government of the province for the time being, or either house of the legislature, might require from time to time statements under oath of the bank's capital stock, debts due, notes in circulation, and cash on hand—this "for the better security of the public." The twenty-first section continued the life of the bank to June 1, 1831, with the proviso "that if before the expiration of that period it shall at any time be found expedient to establish a Provincial Bank in this Province, and that this same be so established by an act of Legislature thereof, then and in that case the said corporation of the President, Directors,

and Company of the Bank of Montreal shall from and after the expiration of seven years from the passing of such Act, be dissolved, and all and every the powers, rights, privileges, and benefits hereby given and granted to the said corporation shall from thenceforth wholly cease and determine, everything in the present Act contained to the contrary in anywise notwithstanding."

Under charters of similar purport the capital of the Quebec Bank was fixed at £75,000, that of the Bank of Canada at £200,000. But it was not until 1831 that the Quebec Bank had called up the full amount, or that the Bank of Montreal, which had had £87,500 paid up in 1818, could report its joint stock at the £250,000 authorized by the act. In 1824 the stock of the Quebec Bank was reported at £51,377, of the Montreal at £187,500, and of the Bank of Canada at £93,825. The latter, finding the trade in American exchange less lucrative than expected and meeting heavy losses besides, gradually wound up its business, though without loss to its creditors, and some time prior to 1831 ceased banking altogether.

Modest as were these capitals of Lower Canada, the bankers of the upper province were unable to report anything like them. The copartnership or association at Kingston probably never had more than £11,500 of capital paid in. That was about the sum at which it stood when, partly because of internal dissensions, partly by reason of unskilled or ill-advised operations, the partnership became bankrupt late in September, 1822. Against a note issue and other debts to the public of some £19,000, the bank had due to it on bond and note a sum

rising £22,000. The liquidation, however, was sadly mismanaged from the outset and after sixteen years and more there was still a sum of £5,000 due divers creditors of Upper Canada's first bank. The shareholders appear to have lost all they put in.

Notwithstanding the backers of the chartered Bank of Upper Canada had proposed the ambitious capital of £200,000, at the time their bill was presented to the legislature, they soon had sufficient experience of the scarcity of coin in the province to obtain a reduction of 50 per cent in the sum of specie required to be paid in before the beginning of business. By an act of 1822, the bank was allowed to start with £10,000 paid in. In 1823 the authorized capital was also reduced by half to £100,000, at the same time as the provincial government was empowered to appoint four of the fifteen directors. Two years from the foundation of the bank in 1822, the capital paid up was only £28,181; in 1826 it stood at £54,037; in 1828 at £72,410, and not until 1830 did it reach £100,000. Half the £10,640 or less, with which the bank had begun operations, was found by the provincial government. As early as 1817, and again in 1819, the legislature of Upper Canada had made a certain improvement upon Lower Canada acts in so far as the acts passed here forbade the bank to issue notes for less than 5s., and provided that upon refusing payment of its bills in specie a bank should suspend proceedings until payment had been resumed. The Bank of Upper Canada was expressly authorized to establish branches. The lower province establishments, on the other hand, were nowhere enjoined to confine their operations to one place.

No one can pretend, after scrutiny of the earliest Canadian charters, that the laws governing banking were strict or their conditions severe. Provisions now reckoned indispensable for protecting the public were either lacking altogether, or, if embodied in the legislation, were deficient in form and devoid of statutory sanction. The liability of shareholders, for example, was limited to the amount of their subscriptions to the stock. This formed some protection to public creditors so long as the stock was not all paid up, but once the authorized capital had been reached, the safeguard of a contingent liability ceased. The issue of notes could proceed to any length, so long as the total debts of a bank, over and above its deposits, did not exceed thrice its capital stock. No apparatus was provided to insure the specie payment of the shares or of calls upon the shares, before the bank began to exercise its rights. No specific penalty, except in Upper Canada, and then it was a mild one, was imposed for suspension of specie payment. Neither were there safeguards against a bank's lending on its own shares, or against directors unduly exploiting in their own behalf their institution's control of funds. The one offense deserving forfeiture of charter, in the opinion of the Lower Canada legislature, seems to have been the loan of money to a foreign state.

As it happened, however, those who owned and managed the first banks were animated by another purpose than to take advantage of the law's defects. What they wanted, apparently, was to make as large a legitimate profit as they might in relying upon legitimate means. The original proprietaries of the Bank of Montreal and

Quebec Bank included a goodly proportion of the wealth and respectability in those cities, and that of the Bank of Upper Canada, though politics rather than commerce predominated, was made up of those who had won standing, esteem, and power in the province. Both the Bank of Montreal and the Bank of Upper Canada had the advantage of alliance with the dominant political party; the Bank of Montreal was favored also with the government account. Until 1832 no other bank was chartered in either province.

In the lower province, the prejudice of the French Canadians against paper currency and their reluctance to accord their English neighbors legislative favors in the shape of charters; in the upper province, the determination of an efficient and well intrenched political faction to keep the valuable franchise of banking in its own hands along with any other available opportunity for power or profit—these were the factors that. for the time at any rate, prevented the multiplication of banks. The influence in the legislative council of the partners of a private banking company formed in 1825 hindered the issue of a legislative charter to any bank in Nova Scotia before 1832, while with one small exception, no bank was authorized in New Brunswick between 1820 and 1835. The difficult period of youth, accordingly, was passed by all the early banks in communities where lenders of money were able more or less to pick their risks.

It must not be forgotten, however, that these were also communities to which the practice of banking was so far familiar only by hearsay, by experience with like institutions in the United States, or by use, outside of banks, of the contracts, securities, money, bullion, and pledges in

which banks dealt. All the colonies were accustomed to the trade in bills of exchange, for the great bulk of manufactures and a large proportion of the supplies used in any of them had to be imported from the south, the West Indies, or Great Britain. Furthermore, it was the custom of the British military establishment, as of the French commissariat before the conquest, to find funds for local expenditures in part at least by the sale of bills instead of by the import of specie. New France had learned the disadvantages of a legal-tender paper currency through a grievous experience with "card money" issued during the closing decades of French rule in enormously excessive quantities, quite beyond the power or inclination of the home treasury to redeem. Hence a deep-seated distrust of paper among the French population of Lower Canada and a disposition to hoard coin. In Nova Scotia, a first issue of treasury notes had been made in 1812, and other issues, all reissuable but not all of them redeemable on demand, followed in 1813, 1817, and 1819. In the two Canadas, finally, apart from divers private promises, there had circulated during the war of 1812 and for some time thereafter, the so-called army bills—legal-tender paper paid out by the commissary-general of the forces in exchange for supplies for the troops, and redeemable in bills of exchange upon the British treasury. With these last the experience had been satisfactory to a degree. Why it had been satisfactory the Canadians of the time seem not always to have understood. Some of them, at all events, overlooked the fact that they were selling their produce at high prices and getting cheap bills of exchange wherewith to pay for imports. Some failed to see that the wealth and

prosperity of the colony were increasing swiftly under the stimulus of a copious inflow of capital from without. Such persons were inclined to explain the good times that lasted through the war and for several years beyond the peace merely by the abundance of a circulating medium, convenient, easily recognized, and of a uniform value.

Inasmuch as the colonies had no coins of their own minting and most of the British specie was promptly exported across the Atlantic, a uniform currency had to be a paper currency. Legal tender, consisting of French, American, South American, Spanish, Portuguese, and Mexican coins, such as these colonies had, each coin given its special rating by the act which made it current, could scarcely furnish a uniform circulating medium in any circumstances. Thus the money changer found his opening and the shrewd peddler or trader took every chance to pay out overrated coin and to retire the gold or silver pieces worth more elsewhere than in Montreal or Quebec. Later on, even the banks, when called upon to redeem notes in specie, did not always scorn to furnish coin of a bullion value so far below the nominal rating that the applicant stood to lose less by paying a stiff rate of exchange for the means of remittance he desired. While the Imperial Government expenditure on the one side and on the other the British North American export of timber, furs, grain, and, later on, pork and flour, generally gave the colonies a favorable balance as against Britain, and the exports to the south or sales of exchange thither a favorable balance in the United States as well, about the only practicable way to realize this balance was by import of specie over the difficult and costly routes from Boston

and New York. Once the equilibrium was restored, the Canadian colonies were subject to a pretty regular drain of the smaller coin through the traffic with the American settlements along their southern borders. Not infrequently it was necessary to make considerable payments for produce shipped from the United States by the St. Lawrence. With the reduction of the imperial forces in the colonies, and with the decline in the demand for their exports, which occurred in 1815–1819, the comparative comfort of the Canadian position sensibly diminished.

The situation, nevertheless, was to all appearances one in which there were both need and opportunity for banks. In satisfying the needs of their communities for currency and capital the banks might have been tempted unduly to expand the structure of credit or to inflate their note issues beyond the point of safety. But best to take advantage of the lucrative opportunities of the specie and exchange market, they were obliged to keep their resources fairly well in hand, their position tolerably sound. From the outset, directors and cashiers appear to have kept steadily in mind the prospect of calls for redemption either in specie or exchange. In Lower Canada, of course, competition for the note issue caused each of the banks to act on the other as a check. In the upper province, where the Bank of Upper Canada had no local rival, there were always need for exchange and a well-nigh constant call for coin in the American trade. Though it ceased to redeem its own notes in Montreal in 1826, it was still obliged to furnish exchange upon the Lower Canadian towns. Not seldom pressure was suffered from agents or customers of the Lower Canada banks, such

pressure being applied in the territory the Bank of Upper Canada reckoned peculiarly its own.

Hence even in the western community, where nearly forty years were to pass before strictly commercial banking was generally to supersede lending upon accommodation paper, or land banking thinly veiled, there was abundant incentive to prudent administration. Rather than statutory precautions, it was the process of frequent redemption, the competition between banks, the size of the capitals which their proprietors had at stake—large, compared to the resources and development of their several communities—and the restriction of the banking franchise to a few which saved the first Canadian banks from disastrous error and their creditors from serious loss.

What was true then held true through most of the subsequent history of the Canadian banks. Worse frauds and more scandalous bank failures occurred under the developed Dominion legislation of 1871 and 1880 than in any of the provinces prior to confederation. From 1829 to 1866, indeed, not one bank chartered by Upper Canada Lower Canada, or Nova Scotia went down in failure. There were losses, to be sure, and heavy ones, notably in the middle twenties, and again after the panic of 1837, in the trying times of 1848–49, and after the collapse of 1857, but, barring the expressly authorized suspensions of 1837–1839, they managed, all of them, and throughout the term, to uphold their solvency and to maintain the redemption of their obligations in coin.

To describe the scene of the banks' expansion in numbers, offices, resources, and strength, to provide the set-

ting for the story of their development, would be an excursus into economic history beyond this paper's scope. It will be necessary, for the most part, to confine the sketch of events preceding 1867, to an account of the changes in the statutes, regulating banks. And, since the two Canadas, now known as Ontario and Quebec, which were united into the Province of Canada in 1841, became the dominant Provinces in the Dominion, possessing at Confederation the largest number of banks and the most important body of bank legislation, the narrative will be concerned with the Canadian development in the narrower sense of the term.

II.—Bank Expansion and Regulation, 1825–1841.

English immigration, the spread of clearings and the opening up of farms, the growth of the milling industry and generous expenditures upon public works, largely of funds from abroad, combined to give the Upper Canadian economy a decided upward swing, late in the twenties. How marked was the enhancement of prosperity of the Province generally, the increase of land values or the improvement of trade, is suggested by the circumstance that in 1830 the Bank of Upper Canada's capital had been paid up in full, and stood at £100,000, as against £10,640 eight years before. Its discounts—£107,598 at the end of 1826—were £260,557 at the beginning of 1831; its circulation had risen from £87,339 to £187,039 and its specie from £19,066 to £42,664. A dividend of 8 per cent every year but the first since organization, and two bonuses of 6 per cent each, made the tidy sum of £51,000, distributed to shareholders inside of nine years. Notwithstanding the increase of its resources, the bank found itself unable to meet the rapidly growing demand for loans.

Accordingly, the management asked the authority further to increase the stock. In the session of 1831–32 the legislature permitted the addition of £100,000. In the same session, the petition of merchants and others of Kingston, who had been seeking a charter since 1829, was finally given a favorable hearing, and authority

accorded for the organization in their city of the Commercial Bank of the Midland district, with a capital stock of £100,000. Except that returns of condition were required in greater detail and in the form of a balance sheet, this charter showed few advances over that granted the older bank thirteen years before. The bank was suffered to begin business with £40,000 subscribed and £10,000 paid up; but both the banks were forbidden at this time, on penalty of charter forfeiture, to lend upon the security of their own shares. When the Bank of Upper Canada opened subscription books for the 8,000 new shares, six months after the passing of the act, individual subscriptions being limited to 80 shares, applications were received for no less than 25,679 shares, or £320,987 10s. In Upper Canada, at least, there were already in evidence an enthusiasm for banking ventures, a belief in the sovereign advantages of banking establishments, which were soon to pass all bounds.

Rather more than a year after both the old and the new banks had begun operations under the acts of 1832, rumors of royal disallowance of the legislation became current. Through 15 or more agencies, the banks had discounted some £450,000. Their circulation amounted to £300,000. The rumor caused a panic, a panic intensified when the banks ceased discounting, and only allayed when they began again to lend. In point of fact, the colonial office had not gone the length of recommending the disallowance of the acts. But, under date of May 9, 1833, the authorities of Downing Street threatened so to do unless the measures were amended in accord with certain regulations of 1830 framed by the committee

of the privy council for trade and plantations for observance in all legislation for the creation of new banks in the colonies or for the increase of the capital of old ones. "These were precautions," said the secretary of state for the colonies, voicing the opinion of the lords of the treasury, "rendered more necessary by an experience of the prejudicial effects, which have in former periods resulted from the extension of the banking system in the neighboring states without the restrictions they impose." In addition to those prescribed in 1830, the lords of the treasury were of the opinion, certain other conditions should be insisted upon with a view to the security of the public, "both as regards the certainty of the convertibility of the paper issued into specie on demand, as well as the prevention of a series of fluctuations in the amount and value of paper money, which are attended with consequences yet more disastrous to the community."

In deference, however, to the emphatic protests of representatives of Upper Canada, who were in London at that time, the regulations thus revised and expanded in May were modified in October. The substance of those suggested for incorporation in the charter of the Commercial Bank was as follows:

1. The charter of the bank to be forfeited for suspension of specie payments for more than sixty days consecutively or within a year.

2. Notes for circulation to be dated at the place of issue and to be payable on demand, in specie, at the place of date and issue, as well as at the principal office of the

bank, it being expressly understood that it is not intended by this regulation that any branch establishment shall be called upon to pay the notes either of the principal bank or of the other branches.

3. Half the subscribed capital to be paid in forthwith; the moiety at the discretion of the bank.

4. Directors, whether as drawers, acceptors, or indorsers, not to have more than one-third the total discounts.

5. The bank not to hold its own stock or to make advances thereon to shareholders.

6. Weekly balance sheets to be kept at the bank's head office, and from these to be prepared half-yearly average statements of the assets and liabilities, which, together with a statement of the rate and amount of the dividend and of the amount of reserved profits, shall be furnished to the government and published; further returns to be furnished if called for and if required to be verified under oath.

7. The shareholders to be respectively liable for the engagements of the company to the extent of twice the amount of their subscribed shares—that is, to the amount of their subscribed shares and to an equal amount in addition.

8. The bank not to lend or to make advances upon lands or other property not readily available to meet its engagements, but to confine its transactions to what are understood to be the legitimate operations of banking, namely, advances upon commercial paper or good securities, and general dealings in money, bills of exchange, and bullion.

Only the second, fourth, sixth, and eighth provisions were to apply to the Bank of Upper Canada generally; the third and seventh to new shareholders only.

The revised provisions found scarcely less disfavor in the eyes of the Canadians than those of May. True, the president of the Commercial Bank, "to avert the ruin of his shareholders," undertook to submit to the conditions of the lords of the treasury, but for the time being the legislature would have none of them. Those which were not absolutely new, which were colorably covered by clauses in the existing charters, they criticised as unnecessary; the limit put upon directors' discounts was described as higher than any permitted in the practice of the banks. What aroused the strongest objection was the imposition of a double liability upon holders of bank shares. This was locally reckoned little short of an attempt, by intimidating capital, to stifle the prosperity and stunt the growth of a community already suffering from a famine of capital. The banks, on their side, opposed the regulation making notes payable not only at the place of date and issue, but also at the principal office of the promissor, as altogether too difficult and expensive of observance. The heavy outlays for transporting specie, and the dispersal of reserves, or the considerably larger reserves which would be needed, were they subjected to this obligation, lent a certain merit to their contention. What the banks were doing, and wished to keep on doing, was to date notes at the principal office and to conduct branches merely as offices of discount and deposit which would pay out, as circulation was needed, the notes of the parent establishment.

Instead of amending the Commercial Bank's charter in the manner proposed by the imperial authorities, the legislature of Upper Canada, after receiving the report of a committee charged with considering the question in all its bearings, adopted an address to the King, deploring the exercise of the royal veto and praying that the bank acts might stand as they were. Objection to any other course was offered, not only because of the confusion and distress which would follow the disallowance, but also because of the undesirability of imperial interference in what the Canadians were pleased to consider an entirely local affair. In acquainting the lieutenant-governor, in May, 1834, of the King's purpose not to disallow the acts, the secretary of state for the colonies justified this decision by the long time the acts had been in force, the excellent practice of the banks, and the inconvenience likely to follow any other course. But at the same time he took care to insist upon the right of the Crown to impose such conditions as might be thought necessary for the regulation of colonial banks.

Shortly before the Upper Canadian charters had drawn the criticism of the colonial office, a new bank had been chartered by the legislature of the lower province in answer to a petition from merchants and others of Montreal. But, notwithstanding its lack of provisions corresponding to the original proposals of the committee for trade or to the revised regulations of 1833, the act incorporating the City Bank, met with no objection from Downing Street, except on the score that the penalties provided against counterfeit and embezzlement were too severe. When this fault was corrected, the act was approved. The home authori-

ties, consequently, were more or less exposed to the charges of inconsistence which the outraged Upper Canadians freely made. But while the first effort to impose limits to colonial autonomy in the matter of banking was not insistently carried through, it proved possible in the end to subject Canadian banks, not only to the restrictions already cited, but also to additional regulations considerably more comprehensive and distinctly better devised.

The City Bank was not allowed to begin business until £40,000 of capital, out of £200,000 authorized, had been paid up and was in the actual possession of the corporation. Notes for less than £1 5s. ($5) currency, were limited to a sum not greater than one-fifth of the capital stock paid up. Notes for less than 5s. were forbidden. The total debts, as usual, were limited to thrice the capital stock paid up, over and above such sums as might be deposited with the bank for safe-keeping. The charter was forthwith to cease and determine if at any time the circulation should exceed the limit thus set by the act, and the president, vice-president, and directors accessory to an overissue were made personally liable. The bank, finally, was required to furnish under oath, whenever the governor or either branch of the legislature required it, a statement of its condition in the form of a balance sheet. This form of statement, borrowed from Massachusetts legislation, was first adopted in 1830 at the time the charter of the Bank of Montreal was continued until 1837. Together with like new restrictions upon note issue, and the penalty for overissue, the requirement was further embodied in the act of 1831, renewing the charter of the Quebec Bank, and permitting the increase of its capital to £225,000.

Except for an act of 1836, continuing the charter of the Quebec Bank for one year, the City Bank's charter was the last banking measure to pass the legislature of Lower Canada. This singular restraint is not to be explained by any failure of Lower Canada to share in the speculative expansion of the time. It was due rather to the opposition of the legislative council, where the influence of banks already chartered was strong, to the establishment of new ones, and to the hostility of the French in the assembly to the enactment of charters in the interest of English proprietors. The assembly was further influenced by the circumstance that in 1835 a partnership *en commandite* had been formed by a number of French Canadians and opened for the business of banking, although without legislative sanction. The growing bitterness and intensity of the political controversy served but to enhance the favor with which the French Canadian members viewed the venture of their compatriots, and to strengthen their determination to keep the field as clear as possible of further competition.

When the bank charters expired, June 1, 1837, the corporations created by them continued their business at first under temporary charters extending their existence for a year, obtained from the Royal Government, or under reversion to articles of association such as those by which they were governed in 1817–1822. Thus the Bank of Montreal shareholders, although a royal charter had been obtained at considerable expense, sold out their bank to an association of practically identical proprietary and proceeded to open subscription books for a quarter of a million additional capital, whereby the whole stock would

be increased to £500,000. But in 1838 and 1839 all three of the banks obtained short-term charters from the special council which had succeeded the constitutional government of Lower Canada upon the outbreak of the rebellion of 1837. These measures made no change in the obligations or the privileges previously confirmed to the banks, apart from authorizing the increase in the stock of the Bank of Montreal.

In a time of grave political disorders, culminating in armed resistance to established authority, the passing of banking measures is generally limited to the absolutely indispensable. It was certainly the case in Lower Canada in the trying years 1837–1839. Even when, six months before the rebellion broke out, the first suspension of specie payments was decided upon by the banks, it was undertaken without authority from the government. Whether or no the suspension was justifiable must always be a moot question. At the time and to those chiefly concerned it seemed proper enough, if for no other purpose than to safeguard the banks' stores of specie against an imminent drain to the United States, and to prevent too severe and sudden a contraction in circulation and discounts. The statistics of the two years, which are rather full, show that, rather than obtaining an appreciable expansion of loans, the public were subjected to considerable contraction, and that in procuring specie for the payment of duties or exchange for the settlement of obligations abroad they were obliged to pay as high as 13 per cent premium. The average discount upon suspended bank paper through 1837 was 6½ to 7½ per cent; in 1838, about 2 per cent.

The first suspension in Lower Canada lasted from May, 1837, to June, 1838; the second, brought on by a renewed resort to arms by the disaffected element, from November, 1838, to June, 1839. For the second suspension the banks had the authority of an ordinance of the special council. During the term of the suspension banks were forbidden to issue notes in excess of their paid-up capital stock or to pay dividends. Another measure, indirectly due to the disturbed financial condition both of the Canadas and of the United States, which the special council passed at this period, was directed against the unauthorized issue of notes under £5 currency and the issue, howsoever, of notes for less than 5 shillings currency.

The discount upon bank notes had led to the export of much of the country's small change, and resort was had anew to the old plan of merchants' *bons* and due-bills for small sums. The suspension had also furnished a chance after their own heart for a number of irresponsible persons to put into circulation, remote from their pretended domiciles, the notes of banks which had no existence under the law. It was mostly in the western United States that, trading on the favorable reputation of the chartered Canadian banks, these operators sought their victims out, and it was generally a Lower Canadian town to which they imputed the home of their banks. By redeeming, as a preliminary, a few of the fraudulent notes at the pretended head office, or at some temporary office in New York or Chicago, they got enough credit for their paper eventually to float considerable sums. No less than seven such ventures were known in 1837, and most of them, though frequently exposed, kept going until the

second resumption in Lower Canada put the value of their pledges to too severe a test.

The ordinance of the special council limited the issue of notes for less than £5 to persons or banks having a license from the government, and it was evidently the purpose to confine these licenses to companies having royal or provincial charters, or other recognized standing. Penalties, triple the value of the paper concerned, were provided against issues for less than £5 not in accord with the ordinance, and for issues less than 5s., a penalty of £5 for each offense.

Before it had been settled whether the Commercial Bank's charter would be allowed to stand, there began, in Upper Canada, an insistent agitation for numerous additional banks. Those already established also appealed for authority to increase their capital stocks. The Reformers, as the party opposed to the family compact called themselves, were strong enough in the assembly to prevent favorable action upon a petition of the Bank of Upper Canada, but the Commercial Bank was permitted by an act of 1835 to open books for an additional £100,000. The subscriptions for this, the books being closed after one day, amounted to £1,937,125. The only regulations of the committe for trade incorporated in the act permitting this increase were the limitation of directors' borrowings to one-third the total discounts and the prohibition of loans on the bank's own stock. The same year one further incorporation was granted, this to the Gore Bank of Hamilton. A clause of its charter, unlike any in those theretofore passed, forbade any incorporated company to hold shares in the bank, except they had been

conveyed to such company in payment of debts to it previously contracted. In such case the holder was not to be entitled to vote upon the stock for the election of officers. Furthermore, there was imposed upon the shareholders, for the first time in any bank charter, either of Upper or Lower Canada, the double liability for which the colonial authorities had contended. "The shareholders of said bank," ran the charter, "shall be respectively liable for the engagements of the company to the extent of twice the amount of their subscribed shares, including the amount of said stock held as aforesaid." To enforce this liability the directors were authorized to sue. If, in case of failure, the shareholders failed within three months of the proper time to appoint directors, or if the directors neglected or refused to call in the sums for which the shareholders were liable, the government was to have the power to appoint five commissioners to close up the bank.

Neither the Commercial Bank act nor the Gore Bank charter imposed the penalty of charter forfeiture for suspension of payment for periods exceeding sixty days, consecutively or during the year, nor were frequent periodical statements required. Commenting upon this failure to incorporate all the regulations suggested by the Home government, the secretary of state for the colonies wrote that, had he been governed by considerations of the commercial policy alone, he could not have advised the confirmation of the acts in the form in which they were passed. The introduction of the double liability into the Canadian legislation had been anticipated by Nova Scotia in 1832, when the Bank of Nova Scotia was chartered,

and by New Brunswick in 1834, in the act incorporating the Central Bank of New Brunswick.

Thirty-odd bills, pertaining to banking, were brought before the legislature of Upper Canada between 1831 and 1840. It was proposed "to regulate banking" and "to regulate the business of banking" in 1831; "to make general the privilege of banking," in 1833–34; and "to establish an uniform system of banking," in 1835. A measure "for the better regulation of incorporated and joint stock banks" received attention in 1835 and one "for the better regulation of banks and for protecting the interests of the public" in 1836; another, "to require banks and other corporations to pay a part of their profits to the receiver-general," in 1836–37. None of these thirty measures passed. Many of the proposals were brought forward by the Reformers, who affected to believe in the general principle, widely advocated in the states to the south, of opening the business of banking under some uniform scheme of safeguards to whomsoever should wish to enter it. But, in 1833, the house of assembly actually passed a bill to enable the receiver-general to issue bank notes chargeable on the public, and, in 1835, a select committee, after prolonged deliberation, reported to the house in favor of the establishment of a provincial bank on the basis of loans guaranteed by the province. Eleven unsuccessful petitions for incorporations were presented by divers groups of promoters or of persons wishing to stake capital in banks between 1830 and 1840. Most of these, of course, were presented prior to 1837. It was truly a time of overtrading, land speculation, commercial expansion, increased consumption, excessive borrowing,

and undue conversion of floating capital into fixed forms. Through the whole province and among both parties there developed a confidence, a veritable faith in the magic power of more banks, or of more bank capital, as a certain instrument wherewith to augment wealth and to put the colony's prosperity on a basis sound for all time. Three or four other petitions were, or had been, before the Assembly at the time the Gore Bank obtained its act, and in the following year the Assembly was induced to pass a number of charters, only to see them rejected by the legislative council. In the session of 1836–37 no less than nine new charters were passed by both branches of the legislature.

By this time, fortunately enough, the imperial authorities had seen "only too much reason to anticipate the rapid approach of a period in which the multiplication of ill-secured representatives of coined money would involve the British-American colonies in the most serious financial difficulties." Under date of August 31, 1836, the colonial office instructed the lieutenant-governor not to permit any act, ordinance, or regulation, touching the circulation of promissory notes, or the local legal tender, to come into operation without having first received the royal sanction conveyed to him by the secretary of state. For some ten years previous the royal assent had been accorded by the lieutenant-governor to measures against which there lay no peculiar objections at the close of the session in which they were passed. Together with acts permitting additions to the stock of the three existing banks, the nine new charters authorized the increase of the banking capital of the province from £500,000 to £4,500,000 currency, the

increase of issue privileges from £1,500,000 to £13,500,000. One project was to make the province a much larger shareholder than ever in the Bank of Upper Canada. The colony was supposed at that time to have about 400,000 of population. None of these bills was disallowed by the home government, but all were sent back to the legislature for reconsideration. Meanwhile the speculative collapse of 1837 occurred in the United States, and the ardor of the Upper Canadians was somewhat chilled. Not one of the reserved bills was reenacted. The peculiar occasion for them having passed, the instructions of the colonial office for the reservation of currency measures were withdrawn at the same time as a new set of regulations for incorporation into colonial bank charters was recommended to the local legislature.

While the prospect of obtaining new charters was still obscured by the political jealousies of the province, efforts were begun toward introducing into Upper Canada joint stock banking without incorporation, after the English model. Four of these organizations were formed between 1834 and 1836. The proposed or intended capitals were ambitious, but the capital paid up of the whole group was reported in June, 1837, as but £98,023, the note circulation, £17,148, and the loans and discounts at £143,718. An increase of such ventures was stopped by an act of 1837, making unauthorized note issue a misdemeanor, but excepting from the prohibition the four banks already established. One of the four—the People's Bank—was bought by the Bank of Montreal and used as the medium of its operations in Upper Canada until, after the union of the provinces, it could work that territory in its own name.

The Agricultural Bank failed in 1837 (November). The Niagara Suspension Bridge Bank appears gradually to have wound up its business after 1841; the Farmers' Bank, on the contrary, continued its operations in a modest way at all events until some time after 1849.

One other new bank appeared on the scene in this period and began business, not only in Upper and Lower Canada, but also in Nova Scotia, New Brunswick, and Newfoundland. This was the Bank of British North America, founded for the most part upon British capital, by British investors interested in the possibilities of profit to be had from assisting the development of the North American colonies. At first it was merely a co-partnership or association, working under a deed of settlement. It thus became necessary to obtain from each province an act enabling the proprietors to sue and to be sued in the name of an officer domiciled in the province, and permitting operations which might otherwise be prohibited by legislation against unauthorized banking. To this, after some preliminary conciliation of the local banking interests, there was offered little objection in most of the provinces, the prospect of a substantial addition to banking resources being of itself ample to win general favor for the new venture. Five of the North American offices first projected were opened early in 1837, a number of them being provided with local advisory boards. Three more were by way of being opened shortly and four others were in preparation. In 1840 the bank obtained a royal charter, one of the conditions being that the whole capital stock of £1,000,000 sterling should be fully paid up. Curiously

enough, this charter specifically confirmed to the proprietary the privilege of a liability limited to the amount of their subscriptions to the stock.

Together with certain of the Upper Canadian joint-stock banks, the Bank of British North America was largely responsible for the introduction of the practice of paying interest upon deposits. And, although the plan had been followed to some extent by the Commercial Bank of the Midland district, this bank's officers also brought into wider use a method of lending understood by the colonists as the Scotch system of cash credits—a plan whereby, upon proper security being given, a borrowing customer overdrew his account and paid interest upon his debit balance. It might be doubted whether in any community where the value of land at forced sale is not reasonably near to what will have to be paid for it in private treaty the Scotch system of cash credits is a practicable plan. But however this phase of the newcomer's policy turned out, it is beyond question that the bank gave valuable service to the country in which it worked, not only by a considerable contribution to the loan fund, but also by the introduction of a large staff of officers trained in the best traditions of banking in Great Britain. In 1868 no less than eleven sometime officers of the institution were filling the chief executive positions of Canadian banks.

The banks of Upper Canada did not follow the example of their neighbors, either of Lower Canada or of the United States, in suspending specie payments in the spring of 1837. Authority for a suspension was granted in the form of a stay law passed early in July, but this

law limited note issues to the amount of paid-up capital stock and forbade the sale of specie during suspension. All the banks maintained specie payment until September. On the 29th the Commercial Bank took advantage of the act. During this term and until it also, in March, 1838, suspended, the Bank of Upper Canada effected a radical contraction in its discounts and practically ceased to make new loans. It sought and found good profits in the trade in specie and exchange, its position as banker to the provincial government and to the commissary-general of the imperial government giving it exceptionally good command both of coin and of bills. As long as exchange was at a stiff premium its interest was to maintain payments. When exchange fell, as preparations for an early resumption in the United States proceeded, the bank's interest was reversed, and a large note issue, together with a transfer of funds from New York to London, became the thing. From the legislature, accordingly, where the Reformers had lost all power or prestige through the hasty and ill-advised armed uprising of December, 1837, there was obtained an act permitting disposal of specie during suspension and issue of notes to twice the amount of the paid-up capital stock. The suspension of the Gore Bank was authorized shortly after that of the Bank of Upper Canada. In May, 1839, the term of the stay law was extended until November 1, 1839, and it was not until that date that the Upper Canadian banks resumed redemption in coin.

The crisis of 1837 was as severe in Upper Canada, probably, and the results as disastrous to the community

generally, as anywhere on the continent. Much distress was caused by the contraction in discounts, and many a trader, prosperous at the high tide of the boom, found himself in dire want. The collapse in land values was of the most serious description, serving not only to render worthless the security of many engagements entered directly or indirectly upon the pledge or possession of real estate, but also to prostrate confidence in the colony's future. Immigration fell off to a nominal volume; emigration to the United States was begun by alarming numbers of disappointed settlers. All of the banks found themselves burdened by large lockups for which the sole guaranty of payment was badly depreciated land or the faith of sorely crippled borrowers of accommodation loans. Unquestionably the expenditure upon imperial account—outlays necessitated by the political ferment and disorders of the end of 1837—helped considerably to ease the condition both of the community at large and of the banks. Considering how thoroughgoing was the speculative inflation which preceded the collapse, it is little short of remarkable that none of the colony's chartered financial institutions went down in complete wreck. Had it been possible or permissible in 1835–1837 to float more of the projects which were put forward as the colony's economic salvation, it is not to be doubted that the subsequent confusion would have been indefinitely more costly and long drawn out.

As it was, the provincial government fell into nearly as difficult straits as the commercial and agricultural interests. One outcome of this situation was a bill to authorize the issue of bills upon the credit of the province, passed by

the house of assembly early in 1838. The plan was for the issue of small bills, payable after a term, but receivable for public dues, wherewith to continue the public works, augment the shrunken circulating medium, and revive the colony's trade. The legislative council threw the measure out. The following session, however, both houses passed an act "to authorize the issue of bills of credit." They were to be for £1 currency each, payable twelve months after date, chargeable on the provincial revenue, and of a total amount not to exceed £250,000. The lieutenant-governor reserved the measure for the consideration of the authorities at home. The colonial office advised against the allowance of the act. "The issue of such an amount of small inconvertible paper money as a resource for sustaining the public credit," wrote the colonial secretary, Lord John Russell, "is not to be justified, even by the present exigency of public affairs."

In 1840 the legislature of Upper Canada decided to dispose of the government stock in the province's first chartered bank. The 8,000 shares were accordingly sold for £25,250, the par value being £25,000. In eighteen years the dividends and bonuses upon this early investment had amounted to £38,315.

III.—1841–1866.

To temper the race jealousies in the lower province, to allay the political discontent in the upper one, better to order the finances of both, and to establish a firm, impartial, and vigorous government throughout the territory, it was decided in 1839 and 1840 to unite the two Canadas into one province. The union of Upper Canada with Lower Canada and the creation of the new Province of Canada became effective on the 10th of February, 1841. To the new province was accorded the boon of what was locally termed "responsible government"—government, that is, by a committee of the parliamentary majority, acting with a measure of autonomy theretofore persistently withheld by the authorities overseas.

Under the jurisdiction of the new legislature there naturally came the ten banks, the early history of which has already been sketched. Exclusive of the Bank of British North America, their reports of condition about July 1, 1841, showed a total capital (paid up) of £1,485,881 currency, note issues of £871,423, specie for £341,059, deposits of £626,292, and discounts of £2,693,723.

In detail these reports showed:

Bank.	Capital.	Circulation.	Total specie.	Deposits	Discounts.
Montreal Bank	£500,000	£227,048	£125,175	£234,686	£936,553
Peoples' Bank	50,000				
City Bank	200,000	108,572	20,378	50,700	340,391
Banque du Peuple	115,759	58,211	8,170	25,360	183,378
Commercial Bank of the Midland District	200,000	205,429	82,890	98,671	461,615
Bank of Upper Canada	200,000	142,849	55,125	144,093	406,927
Farmers' Bank	45,122	14,350	7,867	3,079	54,281
Gore Bank	100,000	77,177	26,385	14,481	165,236
Quebec Bank	75,000	37,787	15,069	55,219	145,362
Total	1,485,881	871,423	341,059	626,292	2,693,723
Bank of British North America	[a] 690,360	50,564	45,828	184,899	575,152

[a] Pounds sterling.

Three of the Lower Canada charters were about to expire, and there were several applications for increased capital in preparation, as well as one petition for a new bank.

At the outset, the question of the revenue of the new province was of more pressing importance than the question of banks. But among the suggestions advanced for the betterment of the revenue there was one which threatened the most important source but one of all the banks' supply of funds. That was the note issue against general assets from which, in conjunction with their shareholders' capital, the banks derived means equal to seven-eighths of their loans and discounts. The new governor-general, Lord Sydenham (formerly Charles Poulett Thompson), a friend of Lord Overstone, and a champion of the "currency principle," which was to become the basic theory of Peel's bank act of 1844, proposed that

the issue of circulating paper be undertaken by the province. What he thus sought was, first, a paper currency perfectly sure of convertibility into the value it represented and free from injurious fluctuations; second, the whole profit of the issue for the benefit of the province, a profit estimated at £30,000 to £35,000 yearly, and capable of being doubled or even trebled in time; third, the immediate acquisition of not less than £750,000 for expenditure by the province upon public works. To reach these ends, Lord Sydenham suggested the establishment of a provincial bank of issue, which, under the management of three commissioners, was neither to discount, receive deposits, or deal in exchange, but in which should be vested the sole right of issuing notes payable on demand for sums of $1 and upward, to a total of £1,000,000. Any issue in excess of £1,000,000 was to be undertaken solely to redeem notes or to buy bullion or coin. One-fourth of the proposed issue was to be covered by bullion or coin, three-fourths by government securities bought by the bank or paid into it. Part of the interest could be used to meet expenses of management; the remainder paid into the provincial revenue. Corollary to these features was the proposal to prohibit the issue of notes by banks after March 1, 1843; such charters as expired before that date were to be continued with power to issue until then, but without it thereafter. Banks whose corporate existence had already been given a longer term, were to be allowed 2½ per cent on their circulation yearly, from March 1, 1843, till the expiry of their charters.

The chairman of the select committee on banking and currency, Francis Hincks, became a ready convert to the

governor-general's views, and succeeded in inducing his committee to report resolutions looking to the incorporation of the project into the law of the province. But from the assembly's view, there were altogether too many objections to the plan. One, as significant as any, was the circumstance that in any economy the chief products of which come from the soil or the forest, a currency of fluctuating volume is no less desirable than wide seasonal variations in the need for a circulating medium are inevitable. From the banks' view, the adoption of the plan meant the loss of a lucrative source of profit, and the necessity of closing branches so as to reduce their lending business to smaller bounds. In the assembly the banking interest was distinctly strong. Upon this occasion, it was backed by the borrowing interests, or, at any rate, by those who looked to the banks for loans. Such persons feared that if the plan went through it would cause a radical diminution in the available resources of those who had to lend. Of some influence, too, was dread lest a provincial bank might unduly strengthen the executive's hand. Although the resolutions were proposed as a government measure, the assembly decided that it was inexpedient to establish a provincial bank of issue or to issue in any way a paper currency on the faith of the province. It was twenty-five years before the promises of the province were issued in substitution for money systematically and in any considerable volume. When these notes were assumed by the Dominion, four years later still, the chairman of the committee on banking and currency of the union was become the confederation's minister of finance. The principles which he then laid down for the regulation

of a government issue of circulating paper were those underlying the rejected measure of 1841.

Partly to make up for the revenue lost by refusing Lord Sydenham's expedient, a tax of 1 per cent per annum was laid upon bank notes issued or circulating in the province. This proved by no means an equivalent, although in 1841–42 the annual revenue reached £9,560 and in 1845–46 ran up to £15,899. Another general measure passed at this time extended to the whole province the powers of banks chartered by either one of the two from which the union was made up. It was stipulated merely that notes of Upper Canada banks issued in Lower Canada should bear date at the place of issue and be payable there as well as at the principal office of the bank.

A revolution in the colony's traditional system of banking having been averted by the decision not to withdraw the issue privileges from chartered companies, action upon petitions for charter renewal and for increased capital became urgent. Petitions considerably to increase the stocks of the old Upper Canada banks and to incorporate two new ones had found approval in the legislature of that province the last session before the union. The bills passed to this end fell before the veto of the colonial office, a veto prompted by the continuance in this legislation of the permission to issue notes for less than £1 each.

Apart from the bank of issue proposed by Lord Sydenham and rejected by the assembly, three other plans were under discussion. A provincial bank in which both individuals and government held shares and to which should be granted an exclusive right to issue paper for circulation, while it was allowed to make discounts and to take

deposits like other banks, was believed to be too monopolistic in its tendencies and fraught with grave political dangers. The adoption of a general banking law, under which anyone complying with the statutory restrictions might enter the business, was condemned by the experience with such measures in the United States, by the multiplication of small local banks to which it led, and by the excessive issues, as well as the weakness and deficient responsibility shown by such banks in times of stress. Remained the third plan, the continuation of the existing system of chartered banks with comparatively large capitals, a system at times liable to put out too many notes, and subject occasionally to undesirable fluctuations, but nevertheless to be preferred. The select committee on banking and currency accordingly recommended the extension of expiring bank charters under uniform regulations and restrictions, most of which had been suggested by Her Majesty's principal secretary of state for the colonies (Lord John Russell) with the expectation that provision for their observance should be made in all colonial bank charters. Since these regulations, together with the supplementary instructions transmitted by William Ewart Gladstone, then colonial secretary, in 1846, contain the elements of any lasting improvement or permanent progress made by Canadian bank legislation between 1841 and 1867, they are worth repeating here in some detail:

"First. The amount of capital of the company to be fixed; and the whole of such fixed amount to be subscribed for within a limited period, not greater than eighteen months from the date of the charter or the act of incorporation.

"Second. The bank not to commence business until the whole of the capital is subscribed and a moiety at least of the subscription paid up.

"Third. The amount of the capital to be paid up within a given time from the date of the charter or act of incorporation, such period, unless under particular circumstances, to be not more than two years.

"Fourth. The debts and engagements of the company on promissory notes or otherwise not to exceed at any time thrice the amount of the paid-up capital, with the addition of the amount of such deposits as may be made with the company's establishment by individuals in specie or government paper.

"Fifth. All promissory notes of the company, whether issued from the principal establishment or from the branch banks, to bear date at the place of issue and to be payable on demand in specie at the place of date.

"Sixth. Suspension of specie payments on demand at any of the company's establishments for a given number of days (not in any case exceeding sixty) within any one year, either consecutively or at intervals, to forfeit the charter.

"Seventh. The company shall not hold shares in its own stock nor make advances on its own shares.

"Eighth. The company shall not advance money on security of lands, or houses, or ships, or on pledge of merchandise, nor hold lands or houses, except for the transaction of its business; nor own ships or be engaged in trade, except as dealers in bullion or bills of exchange; but shall confine its transactions to discounting commer-

cial paper and negotiable securities, and other legitimate banking business.

"Ninth. The dividends of the shareholders are to be made out of profits only and not out of the capital of the company.

"Tenth. The company to make and publish periodical statements of its assets and liabilities (half-yearly or yearly), showing, under heads specified in the annexed form, the average of the amount of its notes in circulation and other liabilities at the termination of each week or month, during the period to which the statement refers, and the average amount of specie or other assets that were available to meet the same. Copies of these statements are to be submitted to the provincial government, and the company shall be prepared, if called upon, to verify such statements by the production, as confidential documents, of the weekly or monthly balance sheets from which the same are compiled; and also to be prepared, upon requisition from the lords commissioners of Her Majesty's treasury, to furnish in like manner such further information respecting the state or proceedings of its banking establishments as their lordships may see fit to call for.

"Eleventh. No by-law of the company shall be repugnant to the conditions of the charter or act of incorporation or the statutes of the province.

"Twelfth. * * * The provisions of charters or acts of incorporation should be confined as far as practicable to the special powers and privileges to be conferred on the company, and the conditions to be observed by the company, and to such general regulations relating to the

nomination and power of the directors, the institution of by-laws, or other proceedings of the company as may be necessary, with a view to public convenience and security.

"Thirteenth. No company shall be allowed to issue promissory notes on demand for an amount greater than its paid-up capital.

Form of return.

Return of the average amount of the liabilities and assets of the Bank of_____during the period from_____to_____.

Promissory notes in circulation not bearing interest	£----------
Bills of exchange in circulation not bearing interest	----------
Bills and notes in circulation bearing interest	----------
Balances due to other banks	----------
Cash deposits not bearing interest	----------
Cash deposits bearing interest	----------
Total average liabilities	----------
Coin and bullion	----------
Landed and other property of the corporation	----------
Government securities	----------
Promissory notes or bills of other banks	----------
Balances due from other banks	----------
Notes and bills discounted or other debts due to the corporation not included under the foregoing heads	----------
Total average assets	----------"

Subject to restrictions of this tenor, to the limitation of the small-note issue to one-fifth the paid-up capital stock, and of directors' discounts to one-third of the total discounts, to the prohibitions of loans to a foreign state, of voting by alien shareholders, or of holding stock of other banks except when taken for bona fide debts, to the injunction to cease discounting during suspension, and finally to the double liability of shareholders in case of failure, the charters of all the Lower Canada banks were continued to 1862. For these corporations the most

radical innovation, of course, was the double liability of shareholders, and next to that, probably, the limitation of note issues to the amount of the paid-up capital stock. The Bank of Montreal was permitted to add £250,000 to its half million of capital and the City Bank £100,000 to its £200,000, while the increase of the Quebec Bank's stock to £225,000, first planned in 1837, was confirmed on condition that the additional shares should be fully paid up by November 1, 1844. Further, a charter was granted to the Bank of the Niagara District at St. Catharines, the capital for this project being fixed at £100,000. All the stock of the new bank was to be subscribed for and half of it paid in before the bank began business. For transgression of the conditions of issue and for the suspension of specie payment for more than sixty days consecutively or through the year, the penalty provided in all of these acts was forfeiture of charter.

The following session, measures were passed again with the purpose of extending till 1862 the charters, and of increasing the stock of the Commercial Bank of the Midland District and of the Bank of Upper Canada. Acts passed with this in view in the same session as those for the Lower Canada banks failed of the royal assent. Each was permitted to call up an additional £300,000 within five years. How limited at this time was the supply of capital for banking enterprise may be judged from the fact that in 1846 the banks procured the extension of the term for paying up the new stock to 1850, while the Bank of the Niagara District, even with the permission it shared with the other Canada West banks to set aside a proportion of "English stock" transferable

in London, never found the capital required to begin business.

Not all of the regulations framed by the British lords of the treasury in 1840, as norms for colonial bank legislation, were adopted by the Canadian committee on banking and currency. The document received from the colonial office carried a prohibition of notes for less than £1 each. This both the committee of 1841 and the legislature they advised had ignored. Working as they were, with an arbitrary money of account, the Canadians had tolerably sound reasons for retaining the dollar notes. The only coins of nearly equivalent value were the Mexican, Spanish, and South American dollars, and those coined in the United States. In practice, Canada was thrown almost altogether upon the Philadelphia Mint for her supply of silver coin. In practice, too, so far as can be judged from examples of the early issues which have been preserved, notes even for £1 currency were so engraved as to have the $4 value considerably the more conspicuous. The pound sterling was ordinarily rated at £1 4s. 4d. currency. The British shilling had long passed for 1s. 3d. currency in Upper Canada; in the lower province it was rated at but 1s. 1d. The important trade relations between Canada and the United States, and the considerable note circulation the Canadian banks enjoyed in communities just beyond their southern borders, made it essential that, in some respects at least, the monetary units of the two countries should be alike. The familiarity of the people with the decimal system and well-nigh every consideration of convenience in business or ease in replenishing stores of specie pointed to the eventual

assimilation of the Canadian currency system to that of the United States. Inasmuch as silver was underrated by the American legislation of 1834, the silver dollar had become worth intrinsically 5s. 1d., Halifax currency. The new eagle, however, had been valued by Canadians at £2 10s. and was the only important coin of any minting rated at even multiples of 5s. There arose in this circumstance, therefore, a further reason for the Canadian circulation of dollar notes.

The imperial government, guided still by the doctrine that the smaller exchanges should be made in coin, were anxious that the colonies should enjoy the benefits of a currency founded on a sound and metallic basis, and avoid the evils of a note circulation of small denominations, which could only subsist by the exclusion of specie. But they forbore to recommend adverse action upon the bank charters on the grounds that the measures had been fully considered by the legislature and governor-general and recommended by both; that a refusal to confirm them might cause embarrassment, and that the legislature had reserved the power of regulating the note issue in the future. When the act to incorporate La Banque des Marchands was presented for the royal assent, in 1846, and the obnoxious provision for a limited issue of dollar notes was found in the act, the colonial office sent the charter back to the governor-general with an energetic renewal of the criticism of 1842, but with a collateral promise that, if the executive council thought a change inexpedient, assent would not be withheld. The Canadians stood by their dollar notes and the charter became effective by proclamation early in 1848, although none of the

privileges accorded by this particular measure was ever used.

While the revival after the crisis of 1837 had been slow in beginning, marked and general improvement in commercial conditions and a lively demand for capital appeared in 1844. The movement took the usual course of an economic expansion, although in Canada the development along speculative lines was carried to no such extremes as in the British railway mania. Still, shrewd observers complained of excessive importations in 1847, and viewed the great increase of staple exports as something most unlikely to endure. Curiously enough, unless the circumstance is to be explained by the dearth of free capital seeking investment and by the difficulty older banks found in obtaining subscription and payment for new shares, there was no widespread agitation for new bank charters. The French partnership *in commendam*, Viger, Dewitt et Cie., was granted a charter, it is true, in 1844, under the style of the Banque du Peuple, and with an authorized capital of £200,000. The act recognized the unlimited liability of the 12 principal partners and the limitation of the liability of the other partners or commanditaires to the amount of their subscriptions. Apart from the Banque du Peuple and the Banque des Merchands already cited, no new bank was authorized until the session of 1847, and this, the District Bank of Quebec, failed to get the money wherewith to start business. In 1847, however, bills passed the legislature permitting additions, £650,000 in all, to the capitals of the Quebec and the City banks and to that of the Bank of Montreal.

The brunt of the crash in England, so far as it affected the North American possessions, fell upon Lower Canada or Canada East, for it was the merchants in Montreal and Quebec whose connection with Britain was the closest, by reason of their dominance in the export trade. Commercial failures in number, a great falling off in overseas shipments of timber, wheat, and produce, heavy reductions of discounts by the banks, and a sharp contraction in their circulation made 1848 a hard year. How severely the banks were affected appears in the losses written off, and the reductions of capital effected shortly after. More than £206,000, most of it in Canada East, was written off capitals and rests in 1848–49, and dividends generally reduced by one-fifth to two-fifths from the rates paid before the crisis. Some of these shrinkages, beyond question, represented part of the losses suffered by Canada at the beginning of Britain's fiscal policy of free trade, and the consequent abolition of preferential advantages in the British customs for Canada's lumber and timber, wheat and flour.

So great was the government's need in 1848, and so hopeless the borrowing of money abroad, that resort was had to the issue of debentures upon the credit of the province. A total issue of £125,000 was authorized, but nothing said as to form, amount, or due dates of the promises. Interest, it was stipulated, should not exceed 6 per cent. The government prepared the debentures as notes of the form and appearance of bank notes for sums as low as $10, made them payable in one year with interest at 6 per cent, and receivable for public dues. A step not contemplated by the act was the reissue of the paper

after it had once been paid into the public chest. For this, the government took indemnity the following year, and at the same time obtained authority for a new issue in debentures for less than £10, payable on demand or after any date, with or without interest. As it happened, the authority thus granted was not used, and the debentures of 1848 soon disappeared from circulation.

For the oppressive sequels of the difficulties of 1847–48, rather an unjust proportion of blame was laid at the doors of the banks. In point of fact, much of the security now offered them was inferior, the banks' resources were more or less crippled, the volume of business legitimately in need of credit had fallen off, and the prices of Canadian exports could not well be expected to rise until recovery from financial and political disturbance across the ocean permitted consumption there to return to something nearer its normal volume. Those most affected by the situation in Canada, however, were disposed to look for explanations nearer to hand, to ascribe their embarrassments to agencies actuated by a will. Hence arose varied complaints of the facilities accorded by the chartered banks; hence there started anew a movement for the provision of banking facilities by the geographical plan, a bank, that is, for each district or for every city and town.

The government of the day included among its members a number of some-time advocates of the Upper Canada scheme of 1835 for a provincial bank; others had favored a general banking law; others yet, among them the finance minister, Francis Hincks, had supported Lord Sydenham's project for the monopolization of the issue privilege by the state. For the time being, the credit of

the province was none too good; neither was the government's command of funds all that could be desired. Finally, across the southern border, the great State of New York had abandoned the plan of chartered banks empowered to issue notes against their general credit, and as early as 1838 turned over to a system of note regulation, under which paper could be issued for circulation only against specially pledged securities lodged with officers of the State.

By dint of various amendments to the original legislation, devised as the defects of that measure appeared from time to time, the free-banking law of New York had become a practicable system of regulation. That under it an economical banking organization was possible, or that it possessed advantages equal to these of other carefully thought-out schemes of banking law, would be less easy offhand to concede and harder still to prove. Neither is it in the least clear that the Canadian government was acting on the precept "like symptoms, like cure." Indeed, the experience prior to 1847 ought to have shown that what the country needed was not more banks, but more capital to be put at the disposal of the banks in the shape of deposits or stock. Furthermore, the strength of the individuals of the Canadian system, their comparatively small number, and the prudent fashion in which they had handled their affairs, no less than the way charters had been granted, left no room for such reproach against these banks as lay against all too many of the chartered or safety-fund banks of New York and the charter mongering through which they obtained their rights.

If they had any, these considerations had no sufficient weight against the prospect of bettering the market for provincial funds, or the possibility that legislation of a new sort would still the popular discontent with the province's banks. The government brought down in June, 1850, their plan for bond-secured notes in "a bill to establish freedom of banking in this province and for other purposes relative to banks and banking," which was avowedly nothing more or less than a copy of the free-banking act of the State of New York. The bill was duly passed by both the assembly and executive council, and in August received the royal assent.

In brief, this law confined the issue of notes intended for circulation to chartered banks or persons thereto authorized by the act. None might be for less than 5s. Individuals, general partners, or joint-stock companies might organize banks. The least capital permitted was £25,000. Any bank formed under the act might have an office in but one place and in but one city, town, or village. Articles of agreement in notarial form, showing the name, place of business, capital stock, number of shares, names, and residences of shareholders, and time when the venture was to begin and end were made the basis of organization. Filing such articles in designated courts of record incorporated the bank and limited the liability of shareholders to double their subscriptions to the stock—to the original subscription, that is, and to an equal amount in addition. As in New York, each bank was required to keep in good faith an office of discount and deposit, to keep on view a list of its shareholders or partners, to make half-yearly returns to the government, and to

submit to government inspection at the discretion of the government. Liabilities in excess of thrice the paid-up stock were forbidden the banks.

Banks thus organized could issue notes only after the deposit with the receiver-general of the province of provincial securities for not less than £25,000 ($100,000) par value, as pledge for the ultimate redemption of the notes. Interest would be paid to the pledgor as it accrued. In return for the bonds, the receiver-general was authorized to turn over to the bank an equal amount of registered notes, printed on paper selected by the government from plates furnished by the bank. Such notes properly signed became notes of the bank, payable in specie on demand at the bank's office. So long as redemption was maintained, the notes of a free bank were receivable for customs and other dues to the government. Chartered banks were permitted to surrender circulation rights and obtain secured notes upon deposit of securities equal in par value to the sum desired. Upon secured notes the province levied no tax. Additional securities might be deposited from time to time, or securities withdrawn, provided the sums so withdrawn were not less than £5,000, and the nominal deposit of £25,000 were not impaired.

Should a bank suspend specie payment and fail to redeem, with interest at 6 per cent, its notes within ten days after the requisition issued by the inspector-general upon receipt of protested paper, that officer was charged with the duty of closing the bank and winding up its affairs, in case no valid excuse was offered for the default. The first step in liquidation was to pay off the notes from the proceeds of pledged securities. Remaining pro-

ceeds were then to be applied to other debts of the bank; but if the securities sold should not fetch enough to meet the notes, other assets were to be applied to the purpose. In other words, note holders were given a prior lien upon all the estate of the issuing bank.

Partly in deference to criticism from Downing Street, the free-bank act was amended the following year by the requirement of monthly instead of half-yearly returns. The obligation to maintain specie reserves at not less than one-third of the notes outstanding, also suggested by the lords of the treasury, was not imposed. Rather than make the imported fashion of banking more difficult, the legislature sought to attract the chartered banks to the plan. An act was passed exempting from half the tax on circulation for the three years next following such banks as would restrict their circulation forthwith to the highest amount shown in their last return, and at the end of three years to three-quarters the average of 1849 and 1850. After the first three years, banks thus restricting their issue were to be exempt altogether from the circulation tax, while during the whole term of the restriction they might issue additional notes to the amount which they might hold of coin, bullion, and debentures of the province. Chartered banks were not required to deposit with the receiver-general securities against which they might elect to issue such notes. There was, to be sure, provision made that in case of failure the proceeds of bonds so held should be used solely for paying the notes, but the fact remained that here was an earnest effort making to extend the circulation of bond-secured notes against which the legislature was providing for no special

deposits of bonds. Two years later (1853) the method of reckoning the tax on circulation was changed so that 1 per cent was collected from the chartered banks upon merely the excess of issue over securities and specie on hand. Chartered banks were also permitted by this act, this time also without special deposit of the securities, to issue their ordinary unsecured notes for so much in excess of their paid-up capital stock as they had of specie, bullion, or debentures of the province on hand.

Unless it were merely a fiscal purpose, the motive of these amendatory measures would be hard to conceive. The concession to the chartered banks certainly involved a complete negation of the security principle of the original law, while the attractions devised to induce larger holdings of debentures were altogether too slight to serve that end. Had the government been determined to force their free banking scheme to general adoption through the province, a much better plan than anything tried would have been to tax the chartered banks out of existence, or to refuse, as the legislature of New York had refused, longer to continue their powers.

As a means to the diffusion of banking facilities the act to establish freedom of banking did not prove a success. The chief beneficiary was the Bank of British North America, whose managers were enabled by this measure to evade, legally enough, the clause in the bank's royal charter prohibiting notes for less than £1. Even three years and a half after the act had become law, in December, 1854, there were but four banks working under its provisions. Of the total bond deposits, £287,125, that of the British Bank stood for £162,125. The three free banks

proper had received notes of a value of £124,499 and had £106,030 outstanding. The largest amount of notes taken out under the act was reported late in 1855, £309,-549; after that there was a steady diminution. The free banks first organized, three of them, sought and obtained charters in 1855. After that they retired as fast as might be their issues of bond-secured notes. The only other two companies organized as free banks began in their turn to retire their paper and withdraw securities as early as 1858, and by December, 1861, the free-bank paper other than that of the British Bank in the hands of the public had fallen to $25,440. Not until 1866, however, was the law finally repealed.

The reasons for the failure of this experiment are not far to seek. William Hamilton Merritt, who presented the measure to the assembly in 1850 and believed to the end that it was "the best system adopted in any country from the beginning of the world to the present time," summed the explanation up in certain observations he offered to the legislature in 1859. "Why did not other banking companies seek charters under the free banking act? Simply because they made more money under the old system." This was no more nor less than the truth. Once capital enough to start a free bank was brought together in any community, it was necessary forthwith to send that capital out of the community, in order to buy the bonds required as an initial deposit against notes. The notes came back, to be sure, but barring such small interest as they earned on the bonds, the proprietors were in exactly the same case with respect to the amount of loanable funds at their disposal as they were before.

They were worse off in this, that they were under obligation thenceforward to keep an office for discount and deposit and to be ready at all times to pay in specie all notes presented for payment.

In such circumstances, it would be difficult if not impossible to keep the whole of any one bank's note issue in the hands of the public. Contrast now the position of a chartered bank. Issuing notes against its general credit, it would have the control both of its original capital and of the resources arising from whatever proportion of its authorized note issue it could keep in circulation. Upon both these components of its loan fund it could earn the current local yield of money invested in discounts and whatever additional gain was incidental to banking operations in its territory. The community, on the other hand, would have the advantage not only of the bank's original capital, or whatever part thereof might be lent safely, but also of the resources derived from circulation. The chartered bank was thus the more efficient instrument, whether for the advantage of its proprietors, or for the increase of banking accommodation in the community where it worked. The most significant of any acknowledgment of this principle is probably to be found in the clause of the statutes of the United States which imposes upon the notes of state banks a tax of 10 per cent each time they are paid out.

The failure of bond-secured issues either to further prosperity or to provide the capital needed for the colony's development became obvious early in the history of the act. At the same time need for additional capital was recognized and provision for it urged by those best quali-

fied of any, perhaps, to judge the market position. In 1854, existing chartered banks petitioned for authority to increase their capital stocks. To look for additional capital in Canada was reckoned comparatively hopeless; to obtain it abroad the opportunity for investment would have to be such as was preferred abroad. The English capitalist was unlikely to be attracted to small or private banking ventures, whereas the stocks of the large chartered banks had been known for years as safe investments. Force was lent to this argument by the promptness with which the Bank of Montreal had obtained subscription and partial payment of a quarter million addition to its capital authorized in 1852.

The policy indicated was adopted by the legislature and provision made for increasing the capital of existing banks. Altogether the addition of £2,010,000 was permitted to the stocks of the six banks who applied. In the case of the largest bank the directors' discounts were limited to one-tenth of the whole. Payment of dividends and transfer of shares in Great Britain were permitted in most of the acts, and in every one of them was included a new condition, fulfillment of which was obligatory if the bank increased its stock. In that case, 10 per cent of the whole paid-up capital had to be invested in debentures of the province or of the consolidated municipal loan fund. Although the majority of the charters had some eight years to run, the corporate existence of the banks was continued to January 1, 1870, and the end of the next session of parliament.

Continuation of the established and so far fairly successful scheme of regulation thus decided, the legislature pro-

ceeded in 1855 to pass new charters for three of the companies first started as free banks and to three wholly new ventures, the total capital authorized amounting to £1,450,000. In the next two sessions five additional charters, all to new banks, were passed, authorizing a further increase of £2,466,666 in the banking capital of the province. All in all, the new policy which followed the abandonment of the free banking scheme had permitted in four years the addition of £5,926,000 to the authorized stock of Canadian chartered banks—a sum more than twice their paid-up capital in 1851, and within a few thousand pounds as much as their paid-up capital in 1861.

Few new features of a distinctly restrictive character appeared in any of the new charters passed at this time, or in the acts consolidating the legislation pertaining to some of the older banks, which were obtained in behalf of these corporations in 1856 and 1858. One of the more notable was the requirement of monthly statements of actual instead of half-yearly statements of average condition, which first appeared in the acts of 1854, extending the capital of the older banks. Another innovation was the restriction of directors' discounts or discounts of firms in which they were members to one-twentieth of the bank's total discounts, loans, or advances. For the voting scale customary since 1817 there was substituted, in the new charters, the rule of one vote for each share. In respect of provisions calculated to insure the payment of a good proportion of the subscribed capital the new charters were deficient, so much so that if it wished an unscrupulous board might put out £35,000 in notes, even £110,000, upon scarcely more capital than the £10,000 needed at the

outset for the purchase of provincial debentures. Although the payment of £25,000 upon the subscribed capital was the least amount upon which a bank was nominally permitted to begin business, no way was provided to make certain the sum was in hand. Charters, moreover, were granted in some cases without sufficient inquiry into the antecedent character and responsibility of the petitioners, with results injurious as well to the standing of the Canadian banks generally as to no small groups of wild-cat promoters' dupes.

All this expansion of old banks or rapid multiplication of new ones forms, of course, but one aspect of the tremendous economic advance which the province was making between 1850 and 1856. A rising tide of immigration, great expenditures upon public works, a succession of excellent harvests, high prices for produce, partly as the result of the Crimean war, cheaper freight rates to and from Canadian ports following the repeal of the British navigation laws, the construction of some 1,500 miles of railway between 1852 and 1858, and, finally, the reciprocity treaty of 1854, which opened up the markets of the United States to a trade of highly lucrative returns, combined to lift the province to a pitch of prosperity hitherto unknown. Upon railways and canals alone it was reckoned some $60,000,000 was spent in the six years following 1850, the bulk of the money coming from Britain.

Along with all this—and much of it, indeed most of it, meant sound and lasting progress—there was a deal of the unsound. Importations, as might be expected, rose to extravagant volumes and land to artificial and inflated values. That speculation, originating in a genuine and

justifiable demand for more agricultural land, soon turned into a frenzied trade in wild or unimproved tracts, in which many of the farmers, then selling produce for cash and buying supplies on credit, locked up an undue proportion of their means. City and town holdings also changed hands at prices which a subsequent generation would scarcely credit. To cite an extreme example—it is of record that near one town of Canada West a property which sold in 1854 for $48,000 went begging fifty years later for $8,000.

Following the poor crop of 1857, low grain prices, and heavy reduction of the inflow of British funds, came the financial crisis in Great Britain and the United States. Thrown as they were almost entirely upon capital and circulation for their lending resources, and confronted at this juncture by the prospect of large demands for note redemption, the Canadian banks ceased to discount. They either could not or would not begin again in time to furnish funds wherewith to move the crops. Within the year their circulation had fallen to two-thirds its volume in 1856; discounts, of course, were cut down in corresponding degree. Failure of the usual means for getting the crops to market tied up the milling industry, threw many out of employment, prevented the customary settlement of farmers' debts, and, as a consequence of this, interrupted the normal course of liquidation in all channels of trade. Without their usual advances, divers local industries were forced to run short time or not at all, while throughout the province, but more especially in the western part, many failures occurred and much distress followed the abrupt fall in the land values. The year 1858 was one of deep depression, a

depression from which there was only the beginning of recovery in 1859.

No Canadian bank failed at the height of the crisis of 1857 or immediately thereafter. Most of the banks were apprehensive of trouble early in the year and proceeded as best they might to set their houses in order against the time of collapse. Even if none other were present, a strong motive for caution was provided in the constant pressure on each for the redemption of its notes exerted by practically all the other banks, and the consequent necessity of keeping well supplied with specie. At this juncture, as in many a preceding time of danger, this incidental effect of a competitive issue of circulation against general assets served as the most powerful influence for careful management, the most efficient deterrent from reckless ventures, of any probably, to the action of which the Canadian banks were exposed. Unfortunately the factor was of the greatest force, not in the early and middle but rather in the final stages of an expansion. When, therefore, it did develop its full effect and the banks changed their policy accordingly, a deal of popular complaint, not to say clamor, was provoked by what the critics called the niggardly timidity and selfish indifference of the banks. Discontent with the currency or rather with the way the banks furnished currency, whether or no this discontent was wholly justifiable, together with the exigencies of the provincial treasury, furnished the main promptings for the plans for a different sort of circulating medium which were brought forward in 1860.

That the banks had not come through unscathed was revealed by the losses acknowledged and the appropria-

tions made for bad and doubtful debts in 1858 and 1859. Just to what degree certain of the older companies had become involved in the land and railway ventures did not come out until some years later. Meanwhile enough faith in the country's future remained among some capitalists to prompt applications for the incorporation of yet more banks. The legislature was complaisant, and in 1858 chartered the proprietary of the projected Bank of Canada (afterwards the Canadian Bank of Commerce). Three charters followed in 1859, two more in 1861, one in 1864, three in 1865, and yet two in 1866. The new capital thus authorized was no less than $16,460,000, much more than was actually added for many years to come.[a]

Only seven of the banks ever started. Some of these, like other banks chartered prior to 1858, found it necessary to procure from a lenient parliament an extension of the time first set for forfeiture for nonuser. None of the twelve charters passed 1858–1866 authorized less, in the first instance, than $1,000,000 of capital stock, of which at least $400,000 was to be subscribed and $100,000 paid in (in a number of cases, "actually deposited in specie with some existing chartered bank") before the beginning of business. In three instances the capital first authorized was reduced to $400,000, while in other cases the repeated extensions of time for payment brought about a practical negation of any effort to safeguard the public by insisting

[a] Under legislation which became effective January 1, 1858, Halifax currency ceased altogether to be the official or statutory money of account. Thereafter Canadians reckoned in dollars and cents by law as they had for decades theretofore in fact. The British sovereign was continued as a legal tender for $4.86⅔ and the American eagle coined after 1834 as legal tender for $10

that new ventures should be equipped with a large paid-up stock.

Just as the first signs of rally from the depression of 1858 became evident the provincial minister of finance, ostensibly to obtain the facts upon which to frame the banking policy of the assembly, procured the appointment of a select committee on banking and currency. The new charters of 1859, however, were passed before the house received the committee's report. The interesting part of this document was not so much the report proper, which criticised existing arrangements for insuring the safety of the bank note circulation as the evidence of bank officers, which accompanied it. There the loopholes in charters were frankly and emphatically exposed. One grave defect was the authorization of banking investment beyond the country's needs. Another was the failure to hedge the privilege of circulation with necessary safeguards. Again, no means were provided to insure the full payment of the capital required of a bank, nor was there any obligation to publish the names, holdings, and addresses of the owners of its stock. Limitation of circulation rights to paid-up capital, plus specie and debentures, was illogical and illusory. Coin or bonds could only be bought with capital or deposits. A livelier interest on the part of directors should be incited by requiring of them larger holdings of paid-up stock. Banks were hampered by the usury law; instead of giving warning by raising their discount rates when trouble seemed imminent, they were forced to refuse some applicants altogether and confine accommodation to customers with valuable accounts, or those only of whose solvency there could be no doubt.

It was a mistake to encourage the organization of small banks. Compared to those of larger capital, experience in the United States had shown that the small bank was unstable and unsafe.

Point was lent to this last criticism by the failure, late in October, of the International and Colonial banks, both recently chartered concerns. Nominally, their head offices were in Toronto, but their operations, consisting chiefly of note issue, were mostly in the United States. The Colonial had reported at the end of September, 1859, a note circulation of $75,300 and total liabilities (exclusive of capital) of $99,878; the International, on the same day, $119,021 of notes issued and liabilities of $134,087. No great loss was caused the Canadian public by their collapse, but the scandal and the ease of acquiring dangerous privileges which had led to the scandal, called forth bitter and general complaint. Not until 1863, however, did the legislature finally repeal these two charters, and two others, which had been exploited with similar irresponsibility and intent to defraud. One of them, the Bank of Clifton (previously the Zimmerman Bank), had pretended to redeem or to cash its notes in Chicago; the other, the Bank of Western Canada, owned by a York State tavern keeper, sought to float its issues in Wisconsin, Kansas, and Illinois.

For such evils as were thus revealed, or as the bankers had pointed out to the select committee on banking and currency, the finance minister (then A. T. Galt) devised a remedy all his own. Rather than the improvement of existing bank charters or increased care in the grant of new ones, he invited the assembly in the session of 1860

to consider proposals involving as sharp a break with the past as Lord Sydenham's project of 1841. His plan was "to separate currency from banking;" his purpose, "to put the currency of the country on a perfectly sure and safe footing by separating it from the banking interests and removing it from the possible suspicion of being affected by political exigency." "If the state supplies the credit," argued Mr. Galt, "it is fairly entitled to the profit which arises from its use. The specie resources of the banks are so much capital kept unproductive, and to that extent produce loss of profit. And while the present system lasts it will be necessary that each bank should keep not only a sufficient reserve of specie to protect its own circulation, but to a certain extent that of others. Under the system I propose this necessity will, to a great extent, be obviated, for the whole resources of the country will be pledged for the redemption of the circulation." He proposed to do directly what the free banking system attempted by a side wind—to achieve the benefits of the Sydenham scheme without endowing the bank of issue with the immense political power involved in the right and obligation to discount for ordinary banks.

The first resolution accordingly set forth the proposal that no paper money be issued except on the credit of the province; the second, that such notes of the province be a legal tender and redeemable on demand in specie, that the maximum issue be fixed at $10,000,000, and that the notes be put into circulation by the banks, who should obtain them from the treasury on delivery of one-fifth the amount of the notes in specie, one-fifth in government securities, and three-fifths in a privileged lien

upon their assets, paying the government for the privilege of circulating amounts up to half their paid-up capital stock at the rate of 3 per cent per annum, and for amounts in excess of half their capital at the rate of 4 per cent. Specie and securities so received the treasury department was to hold as a reserve against the notes. Since the average of three years showed the banks to have been carrying $2,422,000 odd of specie and $2,460,000 of debentures, Mr. Galt figured that under his plan close to $1,000,000 of resources would be released for the uses of trade. To meet the seasonal fluctuations (in 1859 the circulation rose from $8,122,000 in May to $11,236,000 in October) the minister suggested that banks be supplied with notes on their monthly rather than yearly averages, and thought that the collection of interest upon balances would induce the banks to give any necessary elasticity to the circulation. Further, he proposed the repeal of the free bank act, of the tax upon the circulation of chartered banks, and of the clauses in their several charters which obliged them to invest a tenth of their paid-up stock in the debentures of the province. Relief from the circulation tax and from the duty to own bonds, however, was to run only in favor of such banks as surrendered their rights to issue their own notes and substituted notes of the province. Banks already chartered and in operation, or new banks which should open for business within two years, were to be confirmed in their issue privileges to the expiry of their charters, but no longer. The treasury department was to be endowed with authority to issue 4 per cent exchequer bills, which would provide a preferred form of short-term investment

and a medium for settling bank balances. In this last proposal the minister touched upon what was counted by some critics a serious defect in the existing banking organization—the customarily rigid insistence upon specie settlements at places where two or more banks had offices. It had been proposed in Toronto, nearly three years before, to square the monthly settlement by sterling exchange instead of specie, but the Montreal banks refused adherence to the plan.

None of the chartered banks showed any eagerness to exchange a franchise to issue at no cost beyond the cost of printing notes for a right which would cost them 3 per cent on three-fifths of the notes taken out and the current rates upon the specie or the cash paid for debentures with which they were to pay for the other two-fifths. Condemned by the banks as a currency fatally inelastic for a country in which the autumn maximum reached 140 and even 150 per cent of the spring time minimum of circulation, suspected by the people as capable of exploitation for dangerous political abuse, and criticized by the commercial community as substituting a dear currency for one which was ideally cheap, issues by a treasury department found scant approval in the legislature. Less than two months after the introduction of the resolutions the government withdrew them. In the next session a proposal introduced by the minister to borrow on exchequer bills in the sum of $4,000,000 was passed. But it was not until 1866, after Mr. Galt's party had lost and recovered its majority in parliament, and the Canadian treasury was come into yet sorer straits, that the bank of issue scheme, much modified, was given

standing in the statutes as the provincial note act, the forerunner of the legislation subsequently to govern the issue of the present Dominion notes.

Something over $5,000,000 was the sum immediately needed in 1866 to meet the floating debt of the province. Of this, $2,250,000 was owing to one bank and that bank was pressing for payment. Balances in arrears had been renewed so often in England that the credit of the province had suffered. English bankers were having extreme difficulty in selling Canadian government debentures to yield even 8 per cent. Mr. Galt, finding the banks of the province unwilling to advance the government a sum equal to 15 per cent of their capital, proposed that the government should "resume a portion of the rights which they had deputed to others, and meet the liabilities of the country with the currency which belonged to it." What basis, either in law or in fact, there may have been for this express assumption that the function of issue was a prerogative of the Crown it is needless to inquire. The resolutions declaring the expediency of an issue of legal-tender paper, which the government brought down, proposed no cancellation of existing issue privileges; whatever the banks might give up in furtherance of the scheme, they were to give up of their free will. Before the measure had been carried through all stages of consideration in the lower house it encountered so much criticism in point both of principle and detail that the ministry took alternative authority to borrow $5,000,000 on direct loan, and agreed not to use the power of issue if funds could be obtained otherwise.

The act finally passed authorized the issue of not more than $8,000,000 in provincial notes, payable on demand

in specie, either at Toronto or at Montreal as the notes might be dated, and legal tender except at those offices. Arrangements for the surrender of its right to issue its own notes might be concluded by the governor-in-council with any chartered bank prior to January 1, 1868, such bank, however, retaining the right to resume its issue privileges upon three months' notice. To any bank so surrendering its issue and withdrawing its notes from circulation within a year, compensation would be payable till the expiry of its charter, at a rate not to exceed 5 per cent per annum upon the amount of its circulation on April 30, 1866. For the service of issue and redemption, one-quarter of 1 per cent was to be paid every three months to each bank circulating provincial paper instead of its own, the commission to be reckoned on the average amount outstanding of the notes so issued by the bank. Banks relinquishing issue privileges were further exempted from the obligation to hold a tenth of their paid-up capital in provincial debentures, and were permitted to exchange such debentures at par for provincial notes. Likewise, having surrendered their own circulation, they were to escape all further outlays for circulation tax.

As a reserve against the legal tenders, the receiver-general was commanded to hold 20 per cent in specie for the amount in circulation up to $5,000,000, and against amounts in excess of that sum 25 per cent in specie. Cover of provincial debentures to the full amount was required for the difference between specie reserves and notes outstanding. In all but what concerned the issue of notes for $1 and $2 by the British Bank, the act to establish freedom of banking was repealed. Further,

banks were relieved from the traditional penalties for usury retained by inadvertence or intent in the legislation by which they had been permitted to take up to 7 per cent, and to exact certain specified commissions in discounting paper, payable at offices other than the place of discount.

But one bank proved willing temporarily to surrender its rights of issue and undertake the circulation of provincial notes. That was the Bank of Montreal. For the time being, it would seem, the provincial note issue was the Bank of Montreal's favorite scheme. In actual operation, the first effect of the measure, so far as this particular bank was concerned, was to liquidate what had been a distinctly inactive asset. The funds the bank had locked up in the loan to the province, equally with its investment in debentures, were converted into provincial notes available for use in any kind of exchange. In the second place, the bank was not out of pocket by the shift, for upon such paper it drew compensation and commission of 6 per cent from the government, and could still use the notes as it pleased in making loans. The maintenance of reserves and waiver of the circulation tax made the advance cost the province, however, somewhere between 8 and 8½ per cent.

So far as the other banks and the country were concerned the effects were less simple, although it is not clear that the new issue caused any serious or widespread harm. Unquestionably the other banks found cause to acknowledge the power of the one institution which had the government account and had undertaken the issue of government notes. A number were induced regularly

to hold from $50,000 to $200,000 each, under an arrangement that practically precluded the use of the notes as ready cash. The adherence of others to a like arrangement was gained by the decision of the Bank of Montreal to demand settlement in cash at different points outside the centers, rather than to continue the practice of settling by drafts on Montreal or Toronto. At such points the other banks would thus be obliged to pay in specie; the Bank of Montreal, which was generally a creditor in these settlements, could pay when it had to pay in gold or legal tenders. Confronted by the option of scattering their reserves to all the points where they met the Bank of Montreal, and by the same token of considerably increasing their specie holdings, demurring banks generally agreed to keep a quantity of the legal tenders continually on hand. About $1,000,000 of the notes were thus kept permanently outstanding. Altogether the average circulation of legal tender paper the first year of its issue was a little over $3,000,000, or about what was outstanding of the Bank of Montreal's own notes in the spring of 1866. Some part, about $1,000,000, of the treasury needs had been obtained by direct loan.

Such pressure as was used to inject a proportion of the notes into banking reserves, no less than the device of paying out in Montreal notes redeemable in Toronto, Toronto notes dated at Montreal, provoked considerable criticism. Along with certain incidents preceding the financial disturbance in which the Commercial Bank suspended payment, they furnished the material for a bitter and violent controversy, in the course of which the provincial note act, the Bank of Montreal, and the minister

of finance were all roundly condemned. It is unnecessary here to consider how much truth there may have been in testimony so obviously and so strongly colored by the passions of the time. The only permanently evil effect of the government issue, if that be an evil, has been the diminution of the country's specie reserve, brought about under the legislation which created the issue and subsequently increased its volume. Even before 1870 the mere consideration of convenience led a number of banks to effect a decided increase in their reserve holdings of legal tender notes.

The year 1866 was marked by the definitive failure of the Bank of Upper Canada, the old upper province's first chartered bank. Considering the forty-four years the corporation had been carrying on its business and the preeminence it had once enjoyed in the communities it served, its bankruptcy caused singularly little concern. But evidence of coming trouble had been abundant for some years before; indeed, since 1862 the bank's operations had consisted of little more than quiet liquidation with open doors. The immediate interest of the provincial government in the bank through the ownership of shares had ceased, of course, with the sale of those shares in 1840, but the prestige and dignity of a government connection persisted through more than twenty years. In 1850, moreover, the bank had managed anew to obtain the government account. The exclusive mark of confidence thus conferred probably served somewhat to exalt divers grandiose notions the management already entertained concerning their institution's policy, position, and strength. To the economic development of the western

province which marked the early fifties, the extension of railways, to the increase of municipal indebtedness, to the expansion of milling properties, and, as appeared in the end, to the speculation in unimproved lands, the bank found both duty discharged and profit gained in lending ready aid. Lawyers, legislators, the gentry and professions, civil servants and politicians properly connected or properly introduced, were suffered participation in the banks' loan favors on the strength of mere accommodation paper, or on the ultimate and none too remote security of inflated real estate. Down to 1858, however, the bank had paid good dividends, although in calling up capital it had made repeatedly the mistake of distributing the premiums received on new as bonuses to holders of old stock. Considering the volume and character of their business, the management had consistently failed to build up an adequate surplus or rest.

With the great increase of railways in Canada West there came a shift of the routes of trade, no less than of the centers of the milling and lumber industry which made recovery from the crisis of 1857 slower in the older country, where the bank had long been established, than in the newer districts. The bank was sorely hit by the commercial failures of 1858; at the same time it found itself obliged to take possession of much depreciated real estate. One in particular of the larger transactions with railway obligations turned out badly to the tune of nearly half a million dollars. The sum of $220,000 was appropriated for bad debts in 1858, one of $400,000 in 1859, and $294,000 in 1860. The bank was in such position that the government could not consider avail-

able their credit balance, then considerably in excess of $1,000,000. In 1861 a new manager was given charge of the bank. Upon his recommendation to the shareholders, a million and a quarter of bad debts still awaiting provision after the appropriation of all the rest, authority was obtained from parliament in 1862 to reduce the par value of the shares from $50 to $30, the paid-up stock from $3,186,000 to something more than $1,900,000.

The results of an official investigation of the finance department begun in 1862, determined the government of the day, then lately come into power, to shift the bank account of the province to the Bank of Montreal. The debt of the Bank of Upper Canada to the province by way of deposits was fixed at $1,150,000 and transferred to a special account. The disclosures of the report and the further loss of standing caused by the transfer of the government account made the task of rehabilitating the bank hopeless. The dividend was passed in 1864 and 1865 and a steady, significant falling off appeared in the bank's return of circulation, deposits, and discounts. Authority for a further reduction of the stock to $1,000,000 was obtained in August the following year, but before action could be taken upon this the bank was obliged to close its doors September 18, 1866.

When the estate was transferred to trustees in November the notes in circulation were reported at $722,000; balances due other banks, $299,000; deposits by the public, $395,000, and deposits of the government, $1,149,000. Specie had fallen to $42,000, but the landed and other property of the bank amounted to $1,673,000; securities, $17,000; bills and judgments, $2,225,000;

bonds and mortgages, $97,000. Liquidation of the estate was slow; for some obscure reason—ostensibly, to be sure, because it was thought necessary first to realize the assets—the double liability of the shareholders was not promptly enforced (in fact, it was never enforced); no creditor was paid in full; claims against the bank had to be or were taken at face value in settlement of debts due to it; the administration of trustees cost large sums; there was further depreciation in the real estate and doubtful debts. In 1870 the whole property was turned over to the Crown. The Crown redeemed liabilities at 75 cents on the dollar, but forbore to insist upon the Crown priority. In the end about $1,000,000 of the sum due the province in 1866 proved a total loss. Apart from interest or from discounts suffered in realization upon claims before the liquidators were ready to pay, creditors of the bank among the Canadian public (exclusive of the government) lost rather more than $300,000; the shareholders, all the stake they had in the bank.

One other of the Upper Canada banks, the Commercial Bank of Canada, first known as the Commercial Bank of the Midland District, failed in 1867. It had helped and to some extent had shared in the speculative movement prior to 1857, but when the crash came it was nowhere near so badly involved as the Bank of Upper Canada, and rallied quickly from the losses then suffered. Shortly after 1857, however, when the bank took over the account of the Great Western Railway from its old rival, it opened extensive cash credits toward the operation and construction of the Detroit and Milwaukee Railway,

supposedly on the faith of £250,000 granted to this enterprise by the Great Western. The Great Western subsequently repudiated responsibility, and in 1862 the bank brought suit for considerably more than a million. No settlement was obtained until the fall of 1866, when $1,770,000 Detroit and Milwaukee 7 per cent bonds were turned over to the bank. Instead of realizing upon these quickly, the bank waited and thus prolonged its lockup. Blind popular faith in banks had been shaken by the Upper Canada failure, and a proposal at the meeting in June, 1867, to reduce the capital stock by 25 per cent started a quiet but persistent withdrawal of the Commercial Bank's deposits. Help was had from another bank in September to the extent of $300,000. A joint advance of $750,000 was asked of its colleagues on October 21, with the idea that half this sum for four and half for six months would enable the bank to pull through. At a meeting held to consider this request, the banks could not agree as to the conditions of allotment and guaranty. The government were under pledge to extend no help without their bankers' consent, and on the morning of October 22 the Commercial Bank stopped payment. The company was really solvent at that time, but lacked ready cash. In a little more than two months note and deposit liability of $2,786,000 out of total liabilities on this score of $4,657,000 was paid in full. Seven months after the failure the shareholders ratified the contract by which the Merchants' Bank of Canada acquired their property, paying therefor at the rate of one share of Merchants' stock for every three of the Commercial Bank.

In the twenty-six years between July 1, 1841, and July 1, 1867, the number of banks working under the laws of the Province of Canada was increased from 9 to 19; their capital paid up, including the capital of the British Bank employed in the Canadas, from $9,106,548, or its equivalence in currency, to $27,618,440. A total note circulation (exclusive of the provincial notes issued by one bank) of $8,312,386 was reported in 1867 as against one of $3,676,180 in 1841. Deposits not bearing interest and sums not otherwise specified due by the banks had grown from $3,145,872 to $13,938,447, deposits bearing interest from $219,432 to $14,765,879. Of the banks working under colonial charters in 1841 but one had a capital greater than $800,000; in 1867 there was one with $6,000,000 paid up; another with $1,999,100; a third with $1,600,000, and two others with $1,200,000 or more. Excepting the largest bank, the four newest and smallest, and the Commercial Bank, then soon to fail, the average paid up capital of the 13 companies reporting was $1,257,830. Deposits, which in 1841 were but 37 per cent of capital, had increased to slightly over 100 per cent of capital. In respect of circulation the change was in a contrary direction. The precise position is obscured in any return of the quarter century by the peculiarity of the practice or condition of the British Bank. Its note issue was regularly small compared to its capital stock. Banks acting under colonial charters generally showed a considerable reduction in the proportion of circulation either to capital or to total liabilities between 1841 and 1867. A summarized statement of the condition of the banks at ten-year intervals and for 1867 is printed in the table herewith:

Statement of chartered banks in the Province of Canada.

LIABILITIES.

	[a] 1841.	[b] 1851.	[c] 1861.	[d] 1867.
Number of banks in operation	9	8	16	19
Capital stock authorized by act	----------	----------	$35,266,666	$37,466,666
Capital stock paid up	£2,276,637	[e] £2,897,619	[e] 24,410,796	[e] 27,618,440
Promissory notes in circulation not bearing interest	919,045	1,623,435	11,780,364	8,312,386
Balances due to other banks	340,771	271,621	444,120	2,771,925
Dividends unpaid	21,025	933	----------	----------
Net profits or contingent fund	146,410	59,845	----------	----------
Cash deposits not bearing interest, and all sums not otherwise specified due by the banks	786,468	1,126,305	9,175,957	13,938,447
Cash deposits bearing interest	54,858	565,326	9,545,341	14,765,879
Total liabilities other than stock	2,268,577	3,741,757	30,945,341	39,788,638

ASSETS.

Coin, bullion, and provincial notes [f]	£392,540	£413,422	$4,960,439	$7,384,197
Landed or other property of the bank	46,101	135,313	1,429,324	1,510,572
Government securities	24,661	43,825	2,735,956	6,142,573
Promissory notes or bills of other banks	148,342	144,375	1,136,153	1,651,772
Balances due from other banks and foreign agencies	203,586	218,501	4,157,286	5,068,635
Notes and bills discounted	3,282,150	5,573,983	39,588,842	48,158,431
Other debts due to the bank not included under foregoing heads	----------	----------	4,064,389	2,297,414
Total assets	4,094,068	6,529,769	58,072,391	72,213,597

[a] Journal, Can., 1841, Appendix O.

[b] Journal, Can., 1851, Appendix I, No. 1 to 8 inclusive.

[c] The Canada Gazette, Vol. XX, p. 1736.

[d] The Canada Gazette, Vol. XXVI, p. 2245.

[e] This includes £620,000 sterling, being the capital allotted by the Bank of British North America to its Canadian branches.

[f] "Provincial notes" occurs only in the statement for 1867.

Taken all in all, the twenty-six years under the union form a period of marked advance by the Canadian banks along the lines they were subsequently to follow in point of increased stability, greater versatility, and more thorough diversification of risks. Much, perhaps most of the the improvement was by way of internal organization, the multiplication of branch offices, the standardization of practice, and the elimination of methods and of business not now accounted commercial banking in the best sense of the term. Two world-wide and more or less disastrous financial and speculative upheavals had been weathered by the banks without suspension of payment, and indeed without failures whatsoever at the time stringency was most acute. Neither the collapse of the Bank of Upper Canada nor that of the Commercial Bank can be explained as ultimately due to anything but circumstances and proceedings, mistakes and misapprehensions, peculiar to the institutions directly involved. For contemporary critics, to be sure, both banks served as dire examples of the evils brought about by the existing system of bank regulation, and as pointed argument for revolutionary change. But the complaints of some such observers, certainly, were too often tinged by sympathy for the unfortunate holders of failed banks' shares. It is much to be doubted whether in the twenty-six years under review the public creditors of the Canadian banks lost half a million dollars all told.

Down to 1867 the deposit function was still of higher importance only in the cities and to the banks which served the wholesale, manufacturing, and financial communities in which cheques were used as means of pay-

ment. Some growth of deposits came about in the rural districts after 1854 or 1855 when an increase of housebreaking in the country induced farmers somewhat to depart from their habit of hoarding notes. But in the western part of the province, where wheat and flour, timber and wool had to be moved each year, where the produce buyer, then as now, needed to pay for produce in cash, the note circulation was of predominant consequence. All kinds of business slackened considerably in the winter when the water routes of transportation were closed; many kinds of trade were much more active in September and October than at other seasons of the year. Hence a wide and regular expansion of the note issues in the autumn to the highest volume of the twelvemonth; hence a rapid contraction in the early winter which persisted until the low point was reached again in May. Increased provision for borrowers' needs was furnished by the banks without other cost than paying out notes. There was no occasion to import coin or other valuable money from without the district where the augmented demand for credit appeared; no necessity to call up additional capital to supply a demand for loans which endured but fourth, a third, or at most but half of a year. It was a cheap currency, this issue against general assets; but without the profits of issue, borrowers in the western country would have had to pay more for their credits, or, in many cases, to contrive to manage in their neighborhood without a bank. It was a currency of wide and comparatively rapid fluctuations in volume, as the lords of the British treasury had remarked from time to time with every sign of concern. But in an economy

such as the Province of Canada then had, or as the Dominion has to-day, a fluctuating currency is precisely what the country wants.

The filling up of the Mississippi Valley and the growth of population in New York, the increase of export and import trade with Great Britain which marked the fifties, the influx of foreign capital into the colony, the reciprocity treaty with the United States, these were all productive of a much larger business in exchange than any which had previously engaged the attention of the Canadian banks. Prior to the suspension of specie payments in the States, following the outbreak of civil war, the Canadian banks enjoyed a considerable circulation south of the frontier. In the earliest sixties they participated, in no small way, in moving the American crops. A number of the larger banks, through agents at first, afterwards by direct representation, traded in specie and exchange in New York, where two of them became leaders in the market for gold and sterling bills. In Canada itself, moreover, there had already begun that connection with railway enterprise, municipal borrowings, and extensive joint-stock projects—not always felicitous beginnings, to be sure—which later was to constitute the more or less typical Canadian corporation of this sort, a financial as well as a commercial bank.

IV.—The First Bank Act of the Dominion.

Under the British North America act passed by the Imperial Parliament in 1867, and the confederation of the Provinces of Canada, Nova Scotia, and New Brunswick, which this measure brought about, the parliament of the new Dominion was given exclusive authority in all matters pertaining to currency and coinage, banking, the incorporation of banks and of the issue of paper money, savings banks, bills of exchange and promissory notes, interest and legal tender. Subject to this jurisdiction, directly the act came into force, therefore, were the 18 banks chartered by Canada (thereafter divided into Ontario and Quebec), 5 by Nova Scotia, 4 by New Brunswick, and 1 working in all the colonies under royal charter, but obligated to accept such general regulations as the Dominion might impose. The banking legislation of the maritime provinces, though often different in phrase and sometimes in detail from that of Canada, was based upon substantially identical principles. The chief contrasts between Nova Scotia and New Brunswick banks on the one side, and those of Canada on the other, lay in the small capitals of the maritime province banks, and in their tendency to confine their operations to restricted fields. The total paid-up capital at the moment of confederation, including the bank with the royal charter among those of Ontario and Quebec, was for these two provinces, $29,467,773; for

Nova Scotia, $1,552,389; for New Brunswick, $1,480,000; for the whole Dominion, $32,499,162. Granted prior to confederation and not yet used, but not yet forfeited for nonuser, were 3 charters passed by the Province of Canada, 2 by Nova Scotia, and 5 by New Brunswick. Of the banks already in operation, 17 charters were to expire by July 1, 1871.

In the first session of the new parliament little was done by way of general legislation affecting banks. True, the eleventh chapter of the first volume of Dominion Statutes is an "Act respecting Banks" (31 Vict., c. 11), but it merely extended the powers of banks previously incorporated by any of the provinces to the Dominion, subjected the banks of Nova Scotia and New Brunswick to the circulation tax, and reenacted for the whole country such general legislation in respect of banks as was then on the books of the Province of Canada. One of the more important of these paragraphs empowered banks to hold and dispose of mortgages taken as additional security for debts contracted in the usual course of their business, to purchase and to hold lands thus mortgaged to them, to bid in lands auctioned at their suit, and acquire absolute title therein, to act on power of sale, and the like. Other sections dealt with loans upon warehouse receipts, bills of lading, and the like, taken as security at the time of negotiating the loan, and the prior lien accorded to the lending bank against the unpaid vendor of the commodities involved. The banks generally were exempted from penalties for usury, though not permitted to recover at law a higher rate than 7 per cent, and were specifically permitted collection and agency charges not to exceed

one-half of 1 per cent upon notes payable at places other than that at which the loan was made.

In 1868, again, a further extension of the laws of the Province of Canada was undertaken in a measure which declared the provincial notes of 1866 to be Dominion notes for which the Dominion alone was responsible, and continued the provisions first enacted in respect of this issue. Authority was also given for the establishment of branches of the receiver-general's department in Montreal, Toronto, Halifax, and St. John for the issue and redemption of the Dominion notes. Until the unification of the currencies, notes payable in Halifax were to be issued at the rate of $5 the pound sterling, and to be legal tender only in Nova Scotia (31 Vict., c. 46). The last of the preliminary legislation extended the charters of 11 of the Province of Canada banks to the end of the first session of parliament after January 1, 1870. (32-33 Vict., c. 49.)

For what he had done or had omitted to do in connection with the provincial note issue and the failure of the Commercial Bank, A. T. Galt, the first finance minister of the new Dominion, received a deal of blame. He felt that public opinion held him responsible to some extent for the losses suffered by investors in consequence of that failure. His usefulness being thus marred, he resigned from the ministry early in November, 1867. Under his successor, John Rose, reports upon the banking system of the country were presented by select committees both of the Senate and of the House. That of the Senate committee condemned the provincial note act in set terms and recommended a return to the conditions obtaining prior to 1866. The committee were further of the opinion,

however, that if the government were determined by some new system somehow to take possession of the currency of the country, such a change, which the committee strongly deprecated, should be in the direction of a paper currency based on Dominion securities, but immediately redeemable on demand, like the national-bank notes of the United States.

The first report of the house committee submitted to the Commons in the session of 1868–9, consisted merely of the answers to a series of questions drawn up with the evident view of eliciting evidence favorable to the introduction of bond-secured bank notes. Among these queries, for example, was one concerning the expediency of issuing government paper; another related to the practicability and advantage of introducing a system of banks issuing currency based on deposits of government securities analogous to the American system. Notwithstanding the manifest bias of the committee the inquiry was given a wide scope, some of the questions calling for comment upon the past services of existing banks and their present practice and business; others still for discussion of the defects of the system and the means of improving it. Twenty-two sets of answers appeared in the report, 11 of them from the principal executives of chartered banks.

The weight of the evidence thus collected was against the issue of a government currency and against the issue of bank notes upon special security. Four main objections were offered to the American plan of protecting holders of bank notes; first, the reduction of the loan fund involved in the purchase of the necessary bonds; second, the tendency under such a plan to permit and even to

encourage the organization of small local banks with a consequent lessening of the stability of the banking system; third, the lack of elasticity of bond-secured issues, the deficient force of the motives acting upon the issuers either to expand or to contract the circulation in full and automatic accord with the needs of trade; and fourth, the probability that, with only a comparatively expensive currency available for agricultural loans, such credits would be reduced, and numbers of offices in the country districts closed up.

Certain objections to the existing system turned upon the lack of any requirement to hold a minimum fixed proportion of cash against liabilities on notes and deposits; others, again, upon the failure of the traditional scheme of regulation to conform to theories derived from the doctrine that the right to furnish currency is originally a right of the State, or the faith sometimes based upon this doctrine that money may be and ought to be made by the fiat of the State. The valuable constructive criticism, however, consisted chiefly of these suggestions of particulars in which bank charters might be improved:

"(*a*) To establish a minimum capital to be required from newly chartered banks, and to limit the number of branches in proportion to the paid-up capital stock.

"(*b*) To prevent the beginning of business until a certain part of the capital stock is paid up, held in specie, and the fact certified to by a government officer.

"(*c*) To make the double liability available in case of need within a reasonable period, by assessment of shareholders for the deficiency at the end of, say, six months after suspension, and by provision that the subsequent

proceeds form the dividend of the shareholders, rather than the creditors.

"(*d*) To make transfers within three months of the suspension, and at any time thereafter, void.

"(*e*) To require such statements of accounts as would check illegitimate operations.

"(*f*) To prohibit any but moderate dividends till a reserve fund should be accumulated, such to be made good if impaired.

"(*g*) To make circulation a first charge upon the assets of an insolvent bank.

"(*h*) To prohibit the issue of notes for less than $4.

"(*i*) To require a certain proportion of demand liabilities to be held in specie, say, 20 per cent.

"(*j*) To limit the circulation to paid-up capital stock and government securities, and provide that any excess should be covered by specie in hand over and above the amount required to fulfill the previous recommendations.

"(*k*) To require each half year the publication of a certified list of the shareholders.

"(*l*) To prohibit the reduction of capital stock, and to compel the stockholders to make good the capital if it should be impaired."

What the new minister of finance offered Parliament in the way of a banking policy was rather a ready-made scheme than a project founded upon the recommendations of the experts who testified to the committee of the house. The resolutions presented to the Commons in May, 1869, called for the reconstruction of Dominion bank legislation upon the model of the "national bank act" of the United States. In substance it was identically the proposal put

forward by E. H. King, the general manager, and approved by the board of the Bank of Montreal in November, 1867. In the memorandum describing his plans this officer had declared the belief "that the interests of the country will be best served by the diffusion of banking interests in different localities, leaving to the greater banks, in large measure, the care of the mercantile and foreign trade of the country, and to the lesser, in their own districts, the care and support of local enterprise." Then followed the plan to deprive the banks of the power of the issue against their general credit, to permit the issue only of notes prepared by the Government and turned over to the banks only on deposit of equivalent amounts of bonds; to permit the foundation in each county of a local bank with small capital, and to provide for recurring needs for expansion of the currency by requiring maximum deposits of bonds as note security, and by periodically moving the currency from east to west as in the United States. Among the bankers of the time, responsibility for the preparation of the government's project was commonly imputed, probably with ample basis of fact, not to John Rose, the minister of finance, but to the chief executive of the government's bankers and fiscal agents, E. H. King.

Apart from the limitation of issue to notes secured by pledge of Dominion securities with the government, and the provision that no bank should issue in excess of its paid-up capital stock, the resolutions carried the proposals, first, that so long as they were redeemed in specie, such notes should be a legal tender throughout the country except at the office of the issuing bank and at a

redemption agency to be established in Montreal or in the capital city of the province in which the bank was situate; second, that banks should maintain reserves of specie equal to one-fifth their note issue and one-seventh of their deposits at call; and, third, that notes should be the first charge upon the estate of a failed bank; deposits at call, not bearing interest, the second charge. Further proposals concerned the continuance of sundry safeguards already in force or the adoption of others suggested by bankers whose testimony was before the House. If approved the plan was not to go into effect until July 1, 1871.

In the speech with which he brought the resolutions down, the minister put most stress upon the duty of the Government "to see that the circulation which the public at large is bound to take should be placed on as sound and uniform a basis as possible." "It is of essential importance to the interests of the country," he argued, "that the circulating medium be placed on a sound and uniform basis." There, undoubtedly, the minister touched upon one of the weak points of the note circulation as it then was. Notes were not of uniform value the country through. A note was payable, under the law, only at the place or office where it was dated. One branch sometimes accepted in payment the notes of another branch of the same bank, but merely as a matter of courtesy, not as of right. Bank notes circulating in districts at all remote from the place of date and issue were subject to a discount. As a rule Montreal notes would pass at par in Toronto, but that was because the exchange was in favor of the eastern city. Toronto notes would not

ordinarily be worth their face in Montreal. Furthermore, the course of the paper involved by the two most recent bank failures had shown that, quite apart from questions of ultimate security, the immediate redemption of bank notes in all circumstances was not yet fully assured.

But whatever the defects of the existing system, it soon became clear that the community was too well content with sundry patent advantages peculiar to banks of the Canadian type, lightly or willingly to suffer a revolutionary change. The appearance of the resolutions precipitated a storm of criticism, objection, and protest. Indeed, already in April, the banks of Ontario and Quebec had adopted resolutions against any fundamental changes in the system, and for the preservation of the note circulation as it was. Naturally neither the Bank of Montreal nor the Bank of British North America, both of whose chief executives favored bond-secured issues, subscribed to these resolutions. Halifax banks declared the existing system was satisfactory and that change was neither asked for nor desired. Over 70 petitions "that the circulation of the banks be preserved on substantially the present basis" or that "no changes of a fundamental character be made in the present system of banking," petitions from boards of trade and the leading towns and cities, as well as from 10 of the banks, were presented to the Commons in the spring of 1869.

Opposition of a determined and significant character also developed in the House itself. The expansion of the note issue each fall was effected mostly in Ontario, and in Ontario's behalf. Ontario was in no wise ready forthwith to share the profits of crop moving with the east, or to

conduct that operation with less expedition or greater expense. It was felt, too, that the province needed all the resources of credit already at its command. Even if the change to specially-secured notes was to be gradual and requirement of a fixed reserve in specie delayed until 1871, it was asserted, with every show of reason, that rising eight millions would be needed to put the banks in as good case as under issue against their general credit. That sacrifice would be independent of the loss of cheap till money, and of the possibility of maintaining country branches at low cost, which would follow the shift to issue against deposits of bonds.

Only one day's debate, that of June 1, 1869, was devoted to the resolutions in the House of Commons. Pronounced hostility to the proposals was shown not only by the Opposition but by Ontario members generally, and by some of the staunchest supporters of the government. It was known that the Senate was even less likely than the Commons to favor this scheme. On June 2, the resolutions were considered by the Cabinet, with what degree of unanimity was not disclosed. The project lost rather than gained in favor the following fortnight. On June 15, the finance minister announced that the government was willing temporarily to withdraw the proposals but would bring them before the House for consideration the following session. But before the following session was opened the Hon. John Rose, believing that the rejection of his banking policy was definitive, gave up his portfolio. With his withdrawal from the ministry there vanished any immediate prospect that the banking

system of the country would be recast upon American lines.

Sir Francis Hincks, for fifteen years in the British colonial service, and but then lately returned to Canada, succeeded Mr. Rose as minister of finance. Whatever the preconceptions or preferences of the new minister in respect of banking or currency, he seems to have set to work to form new conclusions concerning current needs upon the basis of the facts at hand. After numerous conferences with bankers, merchants, and publicists, and after careful study of existing legislation, Sir Francis formulated measures which, though intended to put the banking of the country upon a safe and stable basis, yet introduced no radical departure from the system to which the Dominion was used. The proposed legislation was brought before Parliament early in the session of 1870.

In presenting his proposals to the House, the minister pointed out that sufficient need for a uniform and general banking law applicable to the whole Dominion was indicated as well by the number of charters about to expire as by the application for new ones already presented. Further, recent experience showed that the holders of bank notes should be given greater security. Used as the people were, however, to advances of credit in the form of notes, it was inexpedient to force the cover of the currency by deposit of government securities, and cause such advances to be reduced or withdrawn. Public opinion, finally, was against the establishment of a bank of issue such as had been proposed some thirty years before.

The main purposes of the bill submitted by the minister and with slight changes of detail accepted by the House, may be summed up thus (33 Vict., c. XI):

First. To require the security of a large paid-up capital. It was first proposed to insist upon $1,000,000 authorized stock, all to be paid up within five years, but in deference to the needs of the maritime provinces, the minimum authorized capital was cut to $500,000, with $200,000 paid in before the beginning of business and 20 per cent each year thereafter. Certification of the fact of the first payment was required from the treasury board.

Second. To restrict the circulation of the banks to notes of $4 and upward. What the banks gave up here they gained in exemption from the circulation tax and from the obligation to invest a tenth of their paid-up stock in government securities. The government, on their side, wanted the room made by the retirement of small bank issues for the circulation of $1 and $2 Dominion notes.

Third. To oblige every bank to receive its own notes in payment at any of its offices, and thereby somewhat to reduce the discount upon notes circulating remote from their place of date. Notes were to be payable, however, only where they were expressly made payable, one of which places was always to be the principal office of the bank.

Fourth. To extend the circulation, or rather the amount outstanding, of Dominion notes by obliging each bank to hold usually half and not less than one-third of its cash reserve in Dominion notes. In so far as such notes held by the banks were not covered by specie, this provision

had all the air of a forced loan. The minister did not deny that the step was one of fiscal expediency rather than bank reform. At the same time the complaints of the Opposition that the proposal unduly diminished the country's gold reserve, that it involved the borrowing of a large sum practically at call, and that it was of objectionable morality in a political sense, were calmly waved aside. Sir Francis felt obliged "to contend in the interests of the public at large that they were entitled to some share in the profits of the circulation."

Fifth. To prohibit loans by a bank on its own stock, saving its lien upon the shares and unpaid dividends of its debtors on overdue debts.

Sixth. To prevent the impairment of paid-up capital by undue division of profits. Directors concurring in such impairment were to be individually liable as for debts due the bank. With the intent to forestall applications for reductions on account of losses, it was further provided that capital lost should be made up forthwith by calls upon the unpaid portions of shareholders' subscriptions and by the application of all net profits.

Seventh. To keep dividends within bounds until the bank should accumulate a rest or reserve fund. Taking a lesson from the extravagant policy of the Bank of Upper Canada, Parliament forbade dividend or bonus in excess of 8 per cent per annum until the rest or surplus of a bank, after deduction of all bad or doubtful debts, should equal 20 per cent of the paid-up capital stock.

Eighth. To penalize the bank for suspension of the payment of any of its liabilities, continuing for ninety

days, by forfeiture of its charter, except for the purpose of making certain calls and of winding up its business.

Ninth. To make the liability of shareholders to the amount of their subscriptions and to an equal amount in addition certainly available and effective. Directors were empowered to enforce this liability to the extent deemed necessary without waiting for the collection of debts to the bank or the sale of its property. Calls for not more than 20 per cent at intervals of not less than thirty days or on less than thirty days' notice became mandatory so soon as a suspension had continued for six months. Shareholders defaulting lost all claim in the estate of the bank without preventing the recovery of the calls. By this provision, likewise suggested by the recent failure, it was expected to shift the burden of waiting for dividends from the creditors to the shareholders of a failed bank. Further, to safeguard such creditors, the liability of the transferor of bank shares, the transfer of which should be registered within thirty days prior to a suspension, was continued, saving his recourse, of course, against the transferee.

Tenth. To give shareholders the right to cast in the meetings of the bank each as many votes as he had held shares for three months prior to the meeting.

Eleventh. To require that directors should each hold of the stock of the bank not less than $3,000 when paid-up capital was $1,000,000, not less than $4,000 when the capital was $1,000,000 to $3,000,000, and not less than $5,000 when the capital was over $3,000,000; to empower shareholders to regulate by by-law the qualification and

number of directors, which should be not less than 5 nor more than 10, the method of filling vacancies occurring between annual meetings, and the remuneration of the president, vice-president, and directors; finally, to continue the restriction of directors' discounts, whether for themselves or for firms in which they might be partners, to one-twentieth of the total discounts of the bank.

Twelfth. To require the transmission of certified lists of shareholders, showing their residences and their holdings, to the minister of finance each year.

Thirteenth. So to amend and expand the monthly return to the government that the condition and character of each bank's assets and liabilities could be better understood. Thus the new schedule contained a special heading for government deposits, whether payable on demand or after notice; on the assets side, separate headings for loans to the government, overdue discounts not specially secured, overdue debts secured and for real estate, other than bank premises, and mortgages on real estate sold by the bank.

Fourteenth. To constitute the making of willfully false returns, and the giving of an unfair or undue preference to any creditor of a bank, misdemeanors, the guilty persons being further held responsible for all damages sustained by those whom they set about to injure or to deceive.

Fifteenth. To provide for the extension of existing bank charters, with amendments embodying the foregoing provisions, by a species of letters patent, which would be

issued by the governor in council upon a favorable report from the minister of justice and the treasury board.[a]

Further provisions limited to chartered banks the issue of notes intended for circulation by a penalty upon unauthorized issue of $400 for every offense, forbade the issue of notes for less than $4, applied all pertinent clauses of the measure to the bank acting under royal charter and to the bank of the principal partners *en commandite*, and continued the bank charters then in force to January 1, 1872.

Contrary to the minister's first suggestion, new banks were not allowed to come into existence, as old ones were to be continued, by letters patent. Parliament refused to give this element of its jurisdiction up. Neither were the banks required to keep cash in reserve in an amount equal to at least a fixed proportion of their liabilities. Sir Francis Hincks had favored this requirement at first, and a few of the bankers took the same view. But the argument against the theory of a fixed reserve offered by most of the bankers, in conference with the minister during the preparation of the resolutions, was strong enough to persuade him to abandon it. Much could be said, and in fact was said, in favor of making its notes a first charge upon the assets of an insolvent bank. The possibility that depositors might start runs in order to convert ordinary into preferred claims seemed to Sir Francis to jeopardize the stability of the banks, and accordingly he rejected the proposal of a noteholder's prior lien.

[a] The treasury board is a commission consisting of the minister of finance and any five of the other members of the privy council. The minister of finance is the treasurer, and has as assistant a deputy minister to whom most of the routine is intrusted. (Rev. Stats. of Canada, 1906, chap. 23.)

Obliging the banks to use government paper for a good proportion of their reserves was only one way in which the finance minister proposed to invade what champions of the banking interest were pleased to consider vested rights. Another limb of his policy was considerably to augment the general circulation of Dominion notes. By canceling the privilege of bank issue under $4 a further certainty of markedly wider use for the legal-tender paper was established. The minister took care to have the power to meet such demands ready at hand. The arrangement for issue and redemption by one of the chartered banks, in force since 1866, was brought to an end, and the management of the government circulation turned over to officers of the government. Authority was taken to establish offices for issue and redemption—branches of the receiver-general's department—in the provincial capitals, and to increase the whole issue, by not more than a million at a time, at intervals of not less than three months, to the total of $9,000,000. Against this the act (33 Vic., c. 9) ordained that the receiver-general should hold specie and Dominion debentures to the amount of the circulation outstanding—debentures not to exceed 80 per cent of the circulation; the specie, as a rule, to be equal to 25 per cent of the debentures (20 per cent of the circulation) and never less than 15 per cent. Issues in excess of $9,000,000 were to be covered by specie, dollar for dollar, and of notes so covered the issue to any quantity necessary might be undertaken.

So far as circumstances permitted, the measure "to regulate the issue of Dominion notes," was meant to reproduce in Canada, the issue department of the Bank

of England, in all that department's essential principles of organization and work. Sir Francis Hincks believed "that the functions of the issue department should be automatically confined to the exchange of gold for notes and vice versa; that an amount can be established which may, with perfect safety, be issued upon public securities, and all beyond that fixed amount in gold." Under pressure of political exigency, excess of issue over $9,000,000 was permitted in 1872, against gold holdings of but 35 per cent. (35 Vic., c. 7.) The Liberals, newly come into power in 1875, changed the rule to 50 per cent in gold for the amounts outstanding between $9,000,000 and $12,000,000, and dollar for dollar against circulation in excess of $12,000,000. (38 Vic., c. 5.) As the area of the Dominion extended, additional branch offices of the receiver-general's department were opened in Prince Edward Island, British Columbia, and Manitoba. In 1880 the limit of issue against specie and debentures was extended to $20,000,000 and the specie reserve required against anything less than that sum reduced to 15 per cent, cover for another 10 per cent of the circulation, however, being stipulated in the form of debentures of the Dominion guaranteed by the government of the United Kingdom. (43 Vic., c. 13.) Thirteen years later, an act of 1903 once more increased the amount but partly to be covered by specie to $30,000,000. (3 Edw. VII, c. 43.) In later years the government has held gold in amounts generally equal to, and sometimes greater than, the quantity of Dominion notes in the reserves of the banks. No serious practical inconvenience has been caused by the legislation in the shape it was given under Sir Francis

Hincks, while the treasury has gained considerably from the privilege of providing the small notes needed by the country at only nominal cost. With the chartered institutions furnishing the fluctuating volume of issues of larger denominations, and the government the small change from $1 upward, Canada has presented, since confederation, rather an exceptional example of the concurrent circulation of currencies regulated by the antagonistic theories of the banking principle and of the currency school.

Further to increase the Dominion's command of ready funds, the minister of finance, and parliament with him, decided in 1871 to take over the government savings banks and savings banks authorized to invest their deposits only in government securities, which had been established prior to confederation in the maritime provinces and to provide for the opening of additional offices. At the same time changes were made in the regulations governing the post-office savings banks, authorized in 1867. Henceforward the receipts of these offices, as well as those of the government savings banks, were to be paid into the consolidated revenue fund, and payments which might be demanded from such offices were to be made out of that fund. No arrangement for a reserve, nor for the investment of deposits in securities was provided for either sort of bank. In the administration of its own savings banks, or of the post-office savings banks, the government took no particular care to limit the advantages of this service to the needy and uninformed. The interest paid was so high (4 per cent until 1889, and then 3½ per cent until 1897) and the limit put upon

individual deposits so generous that for rising thirty years the chartered banks found the government one of their strongest competitors, as well for more or less permanent deposits at interest, as for saving deposits in the stricter sense of the term.

In the form it finally took, the bank act of 1870 was not acceptable to the banks. The provisions for continuing by letters patent the corporate life of banks whose charters were about to expire was an innovation to which the grant of charter by Parliament was preferred. Inasmuch as but one bank had taken advantage of the measure passed the preceding session, the ministry determined early in 1871 to draft a new law, "a general banking act, which would embody, not only the provisions of the previous act of the last session, but also the general provisions of what might be termed the internal regulations of banks." In this the bank charters were to be extended for ten years.

The measure thus described, a document of some seventy-seven sections and twenty three pages, became, when passed, the first bank act of the Dominion under which the banks actually worked. (34 Vic., c. 5.) Only a few changes were made in the new provisions enacted the preceding year. One such change—it can scarcely be called an improvement—relaxed the requirement of a large paid-up capital as a security to the public creditors of a bank. The least authorized and subscribed capital on which a bank might start operations was left as before at $500,000, but the new bank might now open for business with only $100,000 paid up, the payment of a further sum of $100,000, however, being required within two

years. The provisions regarding loans upon warehouse receipts and similar documents, in one aspect really matters of commercial law, but now, as in previous legislation, developed as bank law, were revised and amended. The double purpose of these changes was to simplify procedure and to extend the application of the statutes permitting loans on the security of commodities stored and awaiting sale, or on the way to market, passing into, out of or through the country or in process of conversion from the raw state to finished manufactured product. One short declaratory clause, struck out in 1879 (42 Vic., c. 45) after convincing experience of its pernicious possibilities, permitted a bank to lend upon the collateral security of the shares of any other bank. The prohibition against lending on the banks' own shares was retained, and in 1875, made still more severe by clauses forbidding banks to trade or to deal in its own stock. In other particulars, the new law presented no departure in principle from the general measure passed the year before. For the purposes of closer examination, however, the document is presented in full in Appendix 1.

V.—Legislation and Development, 1867–1890.

From the date of confederation to the 1st of January, 1890, the number of banks under Dominion jurisdiction increased from 28 to 38; their paid-up capital from $32,500,000 to $60,289,910; circulation from $10,102,439 to $33,577,700; total liabilities, other than capital and rest, from $44,548,376 to $171,684,322; and their total assets from $80,722,834 to $252,166,623. The periods of most rapid growth were 1869–1873 and 1880–1883. There was little rally from the stagnation of the middle eighties prior to 1888.

Adequately to set forth the reasons for the fluctuating fortunes of the banks in this period, or to explain the forces making for the marked expansion of the decade 1898–1907, is decidedly the task of the economic historian. To separate the story of the growth of a group of banks in point of profit or resources, or even of variety of business, from that of the agricultural, industrial, commercial, and financial progress of the community from which the banks draw their gains, is scarcely practicable here. Comprehensively to set forth the intimacy of the connection of individual banks with certain industries, or groups of industries, or with certain sections of the country, even in the case of banks so catholic in their choice of business and of scene as the Canadian banks have come to be, involves too many *personalia*, too great an abundance of minute detail. So far as the first great

expansion of 1869–1873 is concerned it is not clear that the Canadian economy was under influences essentially different from those which brought about the tremendous increase of trade and speculation which preceded the crisis of 1873 in other parts of the commercial world.

Contemporary observers called the period, and rightly, "an era of remarkable prosperity." Swift advance was the characteristic condition in almost every direction. Thus the Dominion government was able between 1867 and 1874 to increase the public debt from $93,000,000 to $141,000,000; the federal revenue from $13,600,000 to $24,200,000; total exports, $57,000,000 in 1868, rose to $89,000,000 in 1873–74; imports in the like period, from $73,000,000 to $128,000,000. Between 1870 and 1875 the railways of the country were extended from 2,497 to 4,826 miles. Upon the Intercolonial road there were spent some fifteen and a half millions. Railway construction and building operations at home, and the insistent demand for products of the forest abroad, greatly enhanced the value of all kinds of timber, with the ultimate effect of attracting excessive investment in the lumber industry and of inflating the value of timber limits and timbered land. Under the stimulus of the prospective cheapening of freights, and of the sanguine confidence with which men generally viewed the future, there were large and sometimes more or less extravagant projects of manufacture floated, artificial impulse being supplied in many cases by the disposition of municipalities liberally to bonus incoming concerns. Easy money and what were read as certain signs of enduring possibilities of profit, combined to assure a ready welcome for promotions of joint stock companies, and

especially of those devoted to financial and public-service schemes. Greater still, perhaps, was the influx of capital, and rather too often of credit, into a wide variety of commercial endeavor. Long time accorded wholesalers by the English export houses, liberal terms passed on by these to retail traders, and granted with a deal of carelessness concerning the record or sagacity of the recipients of credit, prepared the way for widespread embarrassment when the power or disposition of the consumer to maintain purchases at boom volume suddenly fell off.

While the country prospered, the banks fared well. With the great advances making in manufacture, transportation, and general trade, and with millions of bank capital struck off the provision of Ontario by the failures of 1866 and 1867, there naturally appeared a call for more facilities from the borrowers' side, and, from the investors' view, an opportunity for additional banks. What followed justifies the inclusion of bank expansion, whether in point of number or of apparent resources, among the most conspicuous of all the speculative growths of the period. Beginning in May, 1868, the movement for new banks continued until June, 1874, with the result that no less than 28 projects were carried to the point of obtaining incorporation from Parliament. Nine of these charters were forfeited for nonuser, but by the end of 1874 the number of new banks opened for business in this term had risen to 19.

Larger and more rapid than any additions due to new ventures, however, was the increase of banking capital effected by the older banks through calling up new shares. In this same term, when $31,000,000 net, or more than

$34,000,000 gross, were added to the paid-up capital stock of the Canadian system, half the sum was provided by three of the banks established prior to confederation. Twenty others of the older banks added some eleven millions to capital in blocks of from one to eleven hundred thousand each. In a little more than seven years the capital invested under Dominion regulation was doubled. Total liabilities were nearly trebled, having been increased from $44,500,000 to $126,000,000; total assets from about $80,000,000 to more than $200,000,000. The increase of bank capital continued for some time after the beginning of the general reaction which followed the panic and crisis in the United States. Figures for paid-up stock came close to the high point of the thirty-three years, 1867–1899, in June, 1876, when 41 banks reported $67,199,051. In so far as there had been speculation in bank shares upon borrowed funds, there was an element of artificiality in this increase. Loans upon the collateral security of shares of other banks were reported for a total of $3,813,000 in December, 1873, and at $5,308,000 a year later. How much surreptitious lending there was by each upon its own shares, a practice in which some of the banks had certainly engaged, the return to the government does not reveal. As late as 1890 the banks were faring comfortably with $6,000,000, in round numbers, less paid-up stock than they nominally had in 1876. That once well started, the movement was pushed to excess seems beyond question, but justification for a good part of the expansion could be derived from the development of the banks' business. Thus their note issues practically trebled in volume between 1868 and 1873

(December), the rise being from $10,157,483 to $29,016,659, while notes and bills discounted increased in the same time from $54,899,000 to $131,996,000.

However reckless, however frenzied, the fashion in which the future had been discounted, the records of the time seem to show little in the trade or banking situation of Canada, in the latter part of 1873, wholly parallel to the American crisis of that year. In the strict sense of the term, Canada suffered no panic. Money became scarcer and dearer, a deep depression of the timber market began as early as June, and, except in the grain business, which was helped by good English demand, a general slackening of trade occurred. Through 1874, the effort to restrict accommodation was hampered by the necessity of supporting many debtors whose assets were likely to prove deficient, if realization were forced forthwith. It was not until 1875 that the stringency was generally felt in the fullest force. Early in that year a heavy contraction occurred in both the circulation and deposits of the banks, but although the drain reached $12,500,000 in three months, total discounts were reduced by scarcely 2 per cent. Failures for $28,843,000 occurred in Canada in 1875, or in twice the number and for nearly four times the liabilities of the year before. The period of readjustment was long; the recovery exceedingly slow. Just when normal conditions were restored would be hard to determine; little marked improvement in business appeared before the fall of 1879. Meanwhile, not only in the carrying trade, in the lumber and timber industries, and in retail trade, where many of the gravest excesses had occurred, but also in the coal, cotton, salt, and slate

industries, the process of sanitation was proving difficult and costly for those immediately concerned. At the same time it was expensive for the banks. In December, 1874, their current loans were reported at $139,379,000; four years later at $97,603,688; the circulation on like dates fell from $29,000,000 to $22,000,000. Notwithstanding all that was written off in these trying years, unsecured overdue debts rose from $1,494,000 to $2,921,000, while overdue debts secured by real estate were doubled, and the holdings of real estate, other than bank premises, increased from $575,499 to $2,383,474.

By way of reductions of capital stock, amalgamations in which proprietaries of one or both banks took new stock of less value than the par of their old, or by voluntary liquidation, seven banks effected, independently of anything written off their surplus funds or rests, a diminution of the paid-up banking capital of Canada amounting to $6,500,000 between 1875 and 1880. La Banque Jacques Cartier reduced its capital from $2,000,000 to $500,000; the Merchants Bank of Canada from nearly $9,000,000 to a little over $6,000,000; the St. Lawrence Bank, changing its name to the Standard Bank, reduced its stock by about $150,000. The Metropolitan Bank of Montreal, with a capital of $800,170, went into voluntary liquidation in 1876, the shareholders eventually receiving about 57 per cent upon the par value of the stock. Stockholders of the Stadacona Bank, who decided on like action in 1880, recovered the full face value of their shares. In 1875 the Bank of the Niagara District was amalgamated with the Imperial Bank, and in 1876 the Royal Canadian with the City Bank, the corporation thus formed being renamed

the Consolidated Bank. In these two cases, however, there appears to have been no noteworthy lessening of the capitalization involved. The market course of bank shares, and the hardships suffered by shareholders in the period of contraction may be judged by estimates of the depreciation in the value of bank stock, made at the time. In 1879 Sir Francis Hincks reckoned the shrinkage of five years at nothing less than $25,000,000. If account were taken merely of what appeared in the government return, or in the annual balance sheets, the calculation of the changes in the par value of paid-up stocks and surplus funds or rests would show shareholders' losses of practically $12,000,000 on this score alone.

Such figures of course include allowance for capital sunk in banks which failed. Of downright failures there were three. Three other banks stopped payment in the spring or summer of 1879, but were enabled to resume operations in time to save their charters. The worst of the failures, whether in point of liabilities or creditors' losses, was that of the Mechanics' Bank of Montreal. Suspended for three months in 1875, it had managed, by a reduction of capital amounting to 60 per cent and more and by subscriptions to new stock, to get once more on its feet. But it found little, if any, support in reputable business circles. In the difficult period succeeding 1876 its discount business shrank to an inconsiderable volume of undesirable loans, while its circulation, much larger in proportion to capital than that of the other Montreal banks, was kept out only by improper and illegal means. After the failure, solvent shareholders were called upon for the whole of their double liability, but even with what this added to the estate

neither note holders nor other creditors received more than 57½ per cent of their claims. At the final suspension the total liabilities, exclusive of stock, were $547,238. Independently of interest losses the public lost some $240,000 by the collapse. So many of its obligations were in the form of notes, and held by those who could ill afford to lose, that the possibilities demonstrated by the Mechanics' failure aroused general indignation and concern.

The failure of the Bank of Liverpool was different, in this wise; that its note issue was small and appears to have been redeemed rather promptly by that bank, the chief creditor of the one in default, which bought the Liverpool's assets. The Dominion government's claim was $84,996, that of other banks $35,000, and of the public $12,671. After long litigation the double liability was enforced against the shareholders and about 96 per cent distributed upon the liabilities at the time of failure—$136,480. The Consolidated Bank, although in August, 1879, it also had become bankrupt, was wound up with less discredit than either of the other two. Eventually both notes and deposits were paid in full, and enough was saved from the wreck to divide among its proprietors about 23 per cent of the par value of a stock reduced from the original sum by 40 per cent. While shareholders sunk more than $3,000,000 in this venture, the public loss was limited to such discounts as were taken on claims by notes or deposits between the time of suspension and the time the liquidator was ready to redeem.[a]

[a] From 1867 to 1876 there was but one failure of a chartered bank in which the public suffered loss, that of the Bank of Acadia, which went down in 1873, after a corporate existence just short of four months. Out of this wreck, however, neither noteholders nor other creditors recovered more

Since the lives of all the banks acting under Dominion charter were to expire July 1, 1881, it became necessary in the session of 1880 to take up the question on what terms to renew them. Some amendments to the legislation of 1871 had been made from time to time as the need appeared. Most important of these was the substitution, already noted, of prohibition for permission of the practice of one bank's lending upon another bank's shares (42 Vic., c. 5). Both in 1873 (36 Vic., c. 3) and in 1875 (38 Vic., c. 17) the form of the monthly return had been expanded to the end of exposing separately as well the accounts with the provincial as with the Dominion governments, of distinguishing between balances due to or from banks or agencies in the United Kingdom and similar accounts in foreign countries, and of presenting the liabilities of directors, whether as primary promissors or as indorsers. These were minor changes; now, it was expected, a general extension of charters would be marked by an effort more or less thoroughly to revise the bank act.

In the discussion and thought of this time upon questions of banking and currency and in the movements which proceeded from them, there appeared two main

than 20 per cent upon total liabilities of $106,914. The debts of the Commercial Bank of Canada were redeemed at face during its suspension, and of course assumed in full by the bank, to which the estate was sold. Payment in full was also made to the creditors of the Commercial Bank of New Brunswick, which failed in 1868. The Westmoreland Bank, likewise domiciled in New Brunswick, was creditably liquidated, though at the expense of the shareholders from whom the double liability was called up. The Gore Bank—third of the banks to begin business under an Upper Canada charter and the last to give up the fight—was absorbed by one of its younger rivals in 1869, at about 57½ per cent on its nominal capital, after the stockholders had already effected a 40 per cent reduction in the value of their shares.

trends. One of these was towards the issue of irredeemable paper money by the government. Conceived and held partly as logical corollary to the doctrine underlying the "national policy" of high protection, which had been approved at the polls such time as the Conservatives were returned to office, the theory that exchanges should be made with currency based upon labor, land, or the faith of the state, was embraced by such numbers and with such enthusiasm that the leaders of the party in power felt bound to show it no small respect. Any indigenous preferences for fiat money had been strengthened, of course, by comparisons, usually to Canada's disadvantage, between the progress of the Dominion and the growth of the United States since the civil war. Many of what were dubbed the "rag baby" arguments used in Canada were drawn from the arsenal of the influential and energetic greenback party south of the border. Champions of a "national currency," however, lacked the backing of business which stood the national policy in good stead, and apart from considerate, even deferential attention to the presentation of their proposals in the house, got nothing further from the government than an increase, cited earlier in these pages, of the limit upon the amount of Dominion notes which might be but partly covered by coin.

The other movement, to which most thinking persons lent their sympathy, if not their active help, took shape as a demand for a better regulation of the issues of the banks. The notes of the banks which had failed in 1879 fell to a discount directly they could no longer be redeemed. What faith there might have been that the

issues of the Consolidated Bank would be paid at par was shaken by disclosures of the shameful mismanagement and by the notorious inadequacy of the assets of the Mechanics' Bank. Besides, there was many a holder of failed banks' notes who could not wait; between realization at a discount and waiting for payment in full he had no choice when such a note was all the cash he had.

To cure such troubles as had appeared under the Canadian system of regulation, those were not lacking who believed the prescription ready in the example of the United States. Once again, though without the ministerial backing it had in 1869, there appeared the plan to remodel Canadian charters on American lines and to secure the note issue by special deposits of bonds. Again, also, the inferior stability, the deficient elasticity, and the higher cost of the service of the "national" banks proved sufficient argument against the plan. Others suggested an audit by shareholders or inspection by the government, believing that with earlier discovery and recognition of questionable assets in the bill books of the banks bank embarrassments would be less frequent and serious than in 1876–1879. This proposal was rejected, partly because of the great practical difficulty—some called it the impossibility—of an inspection by any but a bank's own officers, when the property to be scrutinized was not under one roof but in as many different places as a bank happened to have branches. Not without weight, too, was the responsibility likely to be imputed to the government in the case of failure by banks which its inspectors had passed.

The plan most widely favored and the protection for note holders which was advocated by the banks themselves was to make the paper intended for circulation a first charge or prior lien upon the assets of the issuing banks. The total assets of all the banks were then about eight times their debts upon notes; for single banks the proportion was seldom as low as six, and for some it stood as high as ten. Failure, it was believed, would inevitably befall a bank before its assets could be squandered or mismanaged until they would fetch but a sixth or a tenth of their nominal worth. Over and above the assets, there was the contingent or reserve liability of shareholders upon their stock, equal, if all collected, to the highest amount of circulation a bank might lawfully put out.

Sir Leonard Tilley, finance minister in the government of the time, made the prior lien of note holders a central feature of his proposals for revision. Objection to the change was offered by the Opposition on the old score that the preference of note holders enhanced the danger of depositors' runs. With the banks now willing to take the risk—asking for it, in fact—the objection had lost most of its weight. It was provided in the act to amend the bank act, to which the royal assent was given May 7, 1880, and which was to become effective July 1, 1881, "that the payment of the notes issued by any such (chartered) bank and intended for circulation, then outstanding, shall be the first charge upon the assets of the bank in the case of its insolvency" (43 Vic., c. 22, s. 12.)

In increasing to $20,000,000 the quantity of Dominion notes for which cover of but 25 per cent in specie and

guaranteed debentures of the Dominion needed to be kept, the ulterior purpose of the government was to expand this form of non-interest-bearing debt, so soon as might be, to the new limit allowed by law. To serve this purpose, the banks, which had been issuing notes for $4 each since they were deprived of their $1 and $2 note circulation in 1871, were now restricted in their issue privileges to notes for $5 and multiples of that sum. Further to facilitate the injection of more legal tenders into the country's currency, it was enacted that every bank when making payments should pay, if the payee so desired, any due sum up to $50 in Dominion notes for $1 or for $2 each. The proportion of Dominion notes which banks were obliged to keep in their reserves was increased from usually half and not less than one-third to not less than 40 per cent. Being but incidental to the government's Dominion note policy, already approved by the house, these clauses provoked less criticism than if they had stood alone. Along with the other amendments and additions to the bank act, recommended by the ministry, they were passed with practically no debate.

Chief, perhaps, of these other provisions was that by which the form of the monthly return became fuller and more detailed. Henceforth separate report was to be made of loans from or deposits made by other banks in Canada, secured; loans from or deposits made by other banks in Canada, unsecured, and of the corresponding items on the assets side; of Dominion securities, of other government securities, of loans to corporations and of loans to municipal corporations, of real estate other than bank premises, and of mortgages on real estate sold by

the bank. Another suggestion, derived from the experience of 1879, led to the exemption from liability on bank shares of persons holding stock as executors, guardians, administrators, or trustees, if the representation were declared in the bank's books. Recourse in such cases was reserved against the estate and funds held in trust. The term for which a bank might hold real property, not needed as bank premises, was limited to seven years from the time the property was acquired. Legislation of 1879, which required that contracts for sale of bank shares should specify the numbers of the shares, having proved impracticable of enforcement, was repealed.

Such sections of the bank act as dealt with loans upon bills of lading and warehouse receipts were expanded and considerably improved. Finally, clearly to distinguish credit establishments recognized by the Dominion from private ventures—some of them of questionable creditworthiness—the use of the title "bank" by others than chartered banks was made a misdemeanor.

Three years after the first general revision, or in 1883, the government came to the conclusion that the penalty of charter forfeiture provided as sanction for certain prohibitions of the bank act was too severe. Accordingly, money penalties were established for a number of infractions in punishment for which the government would be reluctant to deprive a bank of its existence. Every day's delay after the time set for the annual dispatch of the list of its shareholders subjected the bank in default to a fine of $50. Against note issue in excess of paid-up capital stock a fine of $100 was provided for issue of less than $20,000 beyond the limit; one of $1,000, for $20,000

to $100,000; of $5,000, for $100,000 to $200,000; and of $10,000 for $200,000 or more of excess. Neglect to keep 40 per cent of the reserve in Dominion notes cost $250 for each offense; failure to transmit the monthly return within twenty days of the end of the month, $50 for each day's delay. For infraction of the clauses (secs. 40, 43, 46, and 51) of the bank act prohibiting loans upon real estate, the bank's own stock and the like, a fine not to exceed $500 was provided for each offense. To the form of the monthly return were added headings for the amount of the rest or reserve fund and the rate of the last dividend. Further to guard against misapprehensions by the uninformed public, the use of the titles banking company, banking house, banking association, banking institution, or banking agency by persons or firms not working under the bank act was made a misdemeanor except the phrase "not incorporated" were added to the title.

The multiplication of bank charters all but ceased with the close of the year 1874. In the seven years 1875–1881, only two new incorporations were passed by Parliament; for neither one of these projects were the promoters able to find the capital. But the improvement in business conditions which began to be perceptible late in 1879, presently, under the impulses provided by the new protective tariff, extensive railway construction and the rapid development of the province of Manitoba, took the form of an active expansion which lasted well into 1883. This improvement served again to stimulate the organization of additional banks. Thirteen new charters were granted between 1882 and 1886—four each in 1882 and 1884, three in 1883, and two in 1886. Eight of these

charters were forfeited in time for non-user within the term prescribed by the several acts. Of the five banks which did start but two survived the year 1894. Meanwhile reductions of capital by some six of the banks, amounting in all to $4,070,000, four failures, and two liquidations left the capital at the end of 1889 at $60,057,235, $72,000 less than four years before. The highest amount reported at the end of any year was in 1885—$61,763,279—when 41 banks were reporting, as compared to 36 in 1879 and 38 in 1889. The business of these institutions, however, showed substantial growth, deposits by the public having increased by 85, circulation by 50, total liabilities by 63, and total assets by 42 per cent. On the whole, a considerable advance in practice appears to have marked the decade. The lessons of 1876–1879 were fairly fresh in mind; the soundness and security of business offering was given more attention than in the days when expansion was accounted an end in itself. The application of borrowed funds became a point for minuter inquiry, and, as a rule, the banks less frequently discovered, too late to be of much help, that they had been finding the price of real estate, plant, or other fixed investment. The increase of branches contributed also to the stability and strength of the banks. Seven of them, for example, had agencies in Manitoba when the land boom collapsed in 1882. So serious were the losses there, not by reason of participation of their own in the inflation of land values, but because of the thoroughness with which the whole commercial community had been infected with the speculative virus, that three out of the seven Winnipeg managers were dismissed.

Bad debts which would have swamped local banks, perhaps for all time, were taken care of by the Canadian banks which suffered them without other outward sign than reductions of capital, smaller additions to rest account, or lower dividends upon their stock.

Of the banks which failed in this period, the Exchange Bank of Canada, domiciled in Montreal, went down the first. Chartered in 1872, it had called up the whole of $1,000,000 authorized capital by June, 1875. In August, 1879, its position became such that it had to suspend payment, though only for a month. Half its capital was written off in 1881, the directors admitting losses to the amount of $341,000. After this untoward episode, the directors appear to have engaged in the effort to bolster the standing of their bank by extensive trading in its stock. A twelvemonth before bankruptcy stock fetched as high as $179 a share of $100 par. For reasons that the government never made satisfactorily plain, the bank, more than half of whose stock was owned by prominent Conservatives, got help from the government in the spring of 1883, in the sum of $300,000. Probably there was abundant truth in the criticism of the Opposition that the bank was a political bank, and an example of the disasters awaiting a political bank. Apart from that, the management was both unscrupulous and unsound. Indeed, the managing director was discovered himself to be owing the bank $226,000 when it failed September 15, 1883. A note issue of $380,218, government deposits of more than $300,000, and public deposits (many of them attracted by rates considerably above the market) rising $1,600,000 were the principal items of liabilities for

$2,430,000 at the time of the final suspension. By virtue of the priority accorded such claims, the notes were paid in full, or rather payment could be had in full, within two months of the suspension. The discount upon this paper, suffered by those who sold it in the street, was never reported as higher than 10 per cent. To other creditors, even with the help of all that could be collected upon the double liability of shareholders, the dividends were only 66⅔ per cent.

A worse outcome awaited the creditors, other than note holders, of the Maritime Bank of the Dominion of Canada, whose head office was at St. John, New Brunswick. From the time of its organization in 1872 to 1883–84, nearly $600,000 of its resources were sunk in a series of more or less speculative operations, most of them unduly large advances to a few favored firms or individuals. For this period of its existence it was in a great measure a one-man bank. Though reorganized in 1884, on a capital reduced to $247,000 and placed in new hands, the bank seems still to have followed the course which its experience roundly condemned. By 1887 its overdue debts amounted to $650,000, more than half of this owing by bankrupts. A sum exceeding twice or thrice its capital had been put by the bank into certain lumber accounts, for the payment of which the sponsor was really but one concern. To the end of prolonging its existence, the management resorted to the plan of kiting sterling bills. A week before the bank failed, in March, 1887, it had $205,000 on deposit by the Province of New Brunswick and $70,735 of Dominion funds, among total liabilities of about $1,410,000. The two governments were suc-

cessful in suits to enforce the crown priority, the law in New Brunswick being more favorable to the Crown than in Quebec, where like litigation begun by the Dominion against the Exchange Bank had failed. Other creditors, apart from note holders, received 10.6 per cent of the amount of their claims. The note holders, though two years passed before the operation was complete, were paid the face of their claims in full, the amount outstanding at failure being $314,000.

By the Exchange Bank failure, public creditors lost close to $690,000, exclusive of interest; by that of the Maritime Bank at least $750,000. From the two bank failures which occurred in Ontario in August and November, 1887, the public loss was less than $15,000. The first of these bankruptcies was committed by the Bank of London in Canada, first established in 1883, and soon involved by a speculative president in a variety of precarious ventures, among them a loan company under his control which later became insolvent. Both note holders and other creditors were paid in full, and more than $80,000 upon the $241,000 paid-up stock returned to the proprietary. In winding up the Central Bank of Canada, also chartered in 1883 and bankrupt in November, 1887, it was necessary to collect the double liability from the holders of the stock. With this help, notes were redeemed at par and claims of other creditors at 99⅔ per cent. The history of this bank was one of discreditable practice, scandalous mismanagement, and more or less dishonest diversion of the bank's resources to the benefit of an inner clique.

The Pictou Bank, having suffered large losses through the failure of some of the principal debtors, went into voluntary liquidation in 1887, and after discharging all its debts, distributed among its shareholders $68,000 odd upon a capital of $232,000.

The second example of voluntary liquidation was provided by the Federal Bank. Incorporated in 1872, the bank had gradually increased its capital to practically $3,000,000. Its management was enterprising, ambitious, and inclined somewhat to scoff at the conservative policies pursued by other and older concerns. One of the devices to which the management resorted was the formation of a subsidiary company for the purpose of lending upon the bank's own stock and of supporting the market for its shares. So well did this "little machine" work for a time that the $1,500,000 new capital issued in 1883 was floated at a premium of 40 per cent. All of the new capital and $250,000 more disappeared in 1885, when the stock was reduced by act of parliament to $1,250,000. The year before, in July, losses in Michigan lumber deals, lockups in Manitoba, and the operations of the machine having crippled its resources, the bank was saved from suspension only by the help of $2,000,000 lent for a brief season by other banks. The new manager then appointed struggled along until the fall of 1887, when the stock of the Federal Bank, never high in the public confidence since the disclosures of 1883, fell below par. Withdrawals of deposits and redemption of notes for a total of $1,632,000 occurred in the last two months of 1887 and the first of 1888. Called into consultation upon the Federal's case, bankers of Toronto decided to advance enough cash to

pay off the liabilities of the bank, provided it were wound up forthwith with open doors. With the failures of the Central and London banks fresh in men's memories, the step was probably a wise one. It meant, to be sure, an advance of some $2,700,000 at a time when reserves were particularly low, but it also meant, or at least so bankers believed, escape from something like a panic and calls for considerably larger amounts of cash before the uneasiness roused by another bank failure could be allayed. The estate of the bank proved sufficient, not only to repay the helping banks but also to permit a substantial dividend to shareholders.

In the twenty-three years, 1867–1889, the sum total of losses suffered by the holders of shares in Canadian banks, whether by reductions of capital, voluntary liquidation, failures, or contribution upon the double liability, was not far short of $23,000,000. Were reductions of rests or the sums appropriated for losses out of profits to be included the total of investors' losses would be still higher. But notwithstanding the failure of 10 banks and the withdrawal, for cause, of 8 others from the field, the loss of principal inflicted upon the creditors of the banks in this period was not more than $2,000,000, no matter what the nature of such creditors' claims.

VI.—Bank Act Revision of 1890.

The ultimate security of the Canadian bank note circulation had been put beyond question, in all but the most exceptional circumstances, by the legislat on of 1880, which made the note holder's claim a prior lien. But the bank disasters of 1883 and 1887 had shown that there could be a serious interruption of the immediate convertibility, directly the issuer of the notes had failed. Neither the Exchange Bank's notes nor those of the Central Bank were subjected to discount greater than 10 per cent in the time between failure and the beginning of payment, but in the two years and more which passed before the liquidator was ready to redeem its paper, those of the Maritime Bank, fetched as little at one time as 40 per cent of their face. And in exceptional circumstances, even the ultimate security was not all that could be desired. Some part of the outstanding issues of banks going into voluntary or involuntary liquidation—that part which was not presented within the stipulated time—had been affected by the clauses in the winding-up acts passed for such banks which permitted the liquidators or the liquidators' trustee, after a term of years and due notice, to distribute among shareholders such sums as had been reserved for the redemption of notes outstanding. It had been found that not all the notes of a failed or otherwise liquidating bank could be called in within any set term.

Still another cause for complaint was to be found in the circumstance that bank notes did not circulate at par in all parts of the country. Notes ordinarily were subject to a discount equal at least to the domestic exchange on the place where they were payable, when offered in places remote from that of issue. When a branch office of the promissor was in the neighborhood, the notes could be used in making payments to such a branch and hence had better standing. But although the number of offices had nearly trebled between 1869 and 1889, there were but 402 offices of chartered banks in the whole Dominion. Being a frequent annoyance, the discount for geographical reasons constituted no inconsiderable grievance.

A fourth objection to the bank act, as Sir Francis Hincks had framed it and Sir Leonard Tilley left it, was the comparative ease of the terms upon which a charter could be obtained. The increase of small banks, or of banks started by persons of small responsibility, had been productive of financial episodes for which the community had small relish. Even the stanchest champions of competition were agreed that the paid-up capital required of new organizations should be increased.

Finally, as in previous discussion about banking legislation, advocacy of bond-secured circulation was not lacking. Among the most conspicuous supporters of proposals to import the system of regulation adopted in the United States were the president and some of the directors of the Bank of Montreal. The Gazette of that city presented through 1889 long arguments in favor of

the plan, mainly because of the security and uniformity of value it would give the country's currency.

The banks, on their side, began to prepare for revision as early as December, 1888. One measure contrived to keep notes at par, however far they might be from the place of issue, was the completion in 1889 of arrangements by most of the banks under which, working generally in pairs, one bank took up at face, in its own neighborhood, such notes of the other as might be presented for redemption. Another step, which eventually led to the organization of the Canadian Bankers' Association, was the decision jointly to work out and to present to the ministry certain suggestions for reform. One of the most significant and far-reaching of these was the establishment of a safety fund, calculated to prevent discount whatsoever on the notes of a suspended bank.

The bankers and the minister of finance, then the Hon. George E. Foster, met in Ottawa January 25, 1890, and on February 11 and 12. What the government proposed to do in respect of revision was not communicated to the bankers at the first meeting, but an expression of views was invited upon the questions of making the bank act a permanent statute, of preventing the discount on the notes of a solvent but distant bank, of preventing discount on the notes of a bank no matter what the issuer's condition, of restricting the circulating privileges of a bank, say, to 60 or 70 per cent of its paid-up stock or to the average of the past three years, of requiring the banks to hold fixed proportions of their liabilities in cash, and of requiring a larger paid-up capital for new banks.

In order to prevent the discount upon notes of a solvent but distant bank, the bankers proposed that banks be obliged to maintain that which most of them had already voluntarily arranged, namely, the redemption of their notes in a number of centers sufficient to insure their circulation at par the country through. This was fairer, they thought, than to compel each bank to accept the notes of all other banks; under the suggested plan the burden of redemption would fall on the bank which had the benefit of circulation. To prevent discount upon notes of a suspended bank, there was submitted to the minister's consideration the project of a safety fund, later enacted into law, and the suggestion that liquidators should deposit with the Crown, before the final distribution of surplus assets, enough to redeem any notes the books of the banks might show as still outstanding. Objection to further restriction of circulating privileges was offered on the ground that the business of many of the banks was of a sort to which large though fluctuating amounts of circulation were well nigh indispensable. There was a possibility of working needless hardship were rights of issue restricted to a fixed percentage of capital, while if the limit imposed were the average of three years, some banks would be unable to meet the annual expansion in the demand for notes.

The chief argument, however, was directed against the suggested requirement of a fixed reserve. Even conceding that some of the Canadian banks had been sailing too close to the wind in the matter of reserves, it was held that a reserve is no reserve if it may not be used when needed. The bankers contended that in the United

States, where the law fixed the least proportion of cash compared to liabilities a bank might carry, the rule was all too frequently honored by its breach, and that it was a fruitful source of violent fluctuations in interest rates at the financial centers. Worse than all else, the fixed reserve was unsuited to Canadian conditions.

Wherever, as in Canada, a borrowing customer is expected to bank with but one bank, the bank, having granted the customer a line of credit, assumes a tacit obligation to meet his demands for credit to the amount of the grant. Multiply such an obligation by thousands, as a bank with many branches must do, and it becomes clear that the bank is more or less in duty bound to find and to advance large sums at times impossible exactly to foresee. Unusual conditions of trade or finance or even exceptional weather could conceivably necessitate an expansion of liabilities, such as is usually coincident with an expansion of assets in modern banking, which would reduce the proportion of reserve below the minimum fixed by law. In such cases, the bankers argued, the freedom of action would be hampered, and the efficiency of the country's institutions of credit impaired, to no good purpose. Further, the obligation to maintain a fixed reserve would grievously and injuriously weaken their power to cope with situations such as the difficulties of the Federal Bank had brought about. The finance minister, however, was obdurate. From his decision to insist upon this radical innovation the bankers appealed to the cabinet. Partly by argument, partly by none too closely veiled a threat to make the question a political issue, the privy council was induced to overrule the minister of

finance. The proposals for bank-act revision he submitted to parliament carried no provision for a fixed reserve.

In the house of commons two other details of his original project were either modified considerably or abandoned altogether. One was the proposal of a compulsory external audit, to be conducted by nominees of the shareholders, the results of which should be communicated to the shareholders at their annual meetings and to the minister of finance. To this it was objected that an auditor could not be expected accurately to ascertain the character and value of a bank's discounts—the key to its whole position—and that consequently a favorable report from an auditor would be no guaranty that the condition of a bank was sound. The shareholders' audit, therefore, was rejected. The other, and subsequently modified proposal, was one to the effect that a return should be made each year of the dividends unclaimed for five years, and of balances in respect of which no transaction had occurred or on which no interest had been paid for five years. Together with the amounts involved, the names and last-known addresses of the persons to whom these sums were due, and the place and time of their last transaction were to be set forth in the return, and sums not claimed within three years after the first return in which they were reported were to be paid to the minister of finance for the public uses of the Dominion, saving the right of the person entitled to any sum to recover it on proper proof of claim. The effort exactly to copy for Canada provisions more or less common to the bank law of India, some of the Australian colonies, and Natal failed in the form first proposed, but the banks were obliged

each year to report to the government the amount of balances and dividends, unclaimed and dormant, for five years preceding, and all the other details which the minister had desired. As it happened, therefore, the revision of the bank act under Doctor Foster was considerably closer to his own description than he at first intended—"to keep the existing system, but to improve it, obviate the objections and difficulties, and establish new safeguards."

First of the improvements was the establishment of a safety fund—the bank circulation redemption fund, it was styled in the act—to prevent discount upon the notes of a failed bank between the time the failure happened and that at which the notes could be redeemed. As originally constituted, and lodged in the keeping of the minister of finance and receiver-general of the Dominion, this fund was to be made up from contributions of the several banks enjoying issue privileges, equal each to 2½ per cent upon their average circulation in the year 1890–91, and to a further 2½ per cent upon their average circulation in the year 1891–92. Thereafter it was to be adjusted annually so that it would be equal to 5 per cent of the average circulation of the contributing banks, as shown by the monthly return of notes outstanding in the twelvemonth preceding the 30th of June, the average being calculated, however, on the greatest amount outstanding during the month and not upon what might be in circulation at the end of the month. "The bank circulation redemption fund * * * ," it was provided by section 54 of the act (53 Vic., c. 31), "shall be held for the following purposes and for no other, namely: In the event of the suspension by the bank of payment in specie or Dominion

notes of any of its liabilities as they accrue, for the payment of the notes then issued or reissued by such bank and intended for circulation, and interest thereon; and the minister of finance and receiver-general shall, with respect to all notes paid out of the said fund, have the same rights as any other holder of the notes of the bank." The last clause, of course, related to the note holder's private lien.

No payment was to be made out of the fund, however, unless the liquidator of the bank originally responsible for the notes should fail to make arrangements for their redemption within two months of the bank's suspension. But when occasion should arise to use the fund, payments were to be made from it, irrespective of the amount contributed by the bank on whose behalf the payment might be made. When payments should exceed the contribution of such a bank, other issuing banks could be called upon to make good the amount of the excess, but not in sums greater in any one year than 1 per cent of their average circulation for that year. Such contributions were to be returned to the banks making them, pro rata to their amount, in case recovery of the whole or any part were obtained from the failed bank's estate. Further clauses permitted the return of its contribution to the liquidator of a bank in process of winding up, directly it was clear that adequate provision had been made for its notes, and enabled the minister of finance to enforce by suit the payment of any sum due by a bank under the regulations governing the fund. The precise terms of the bank act of 1890 as amended in 1900 and consolidated in 1906 are printed in full in Appendix II.

Significant as were the creation of machinery by which the chartered banks became joint guarantors of each one's issue of notes, and the psychological effect, due to this change, upon the standing of the bank-note circulation, practical consequences of at least equal importance were brought about by the provisions for the payment of interest upon a failed or suspended bank's notes. Directly default upon any of its liabilities was committed by a bank, the act provided, its notes intended for circulation should bear interest at the rate of 6 per cent per annum until such time as the liquidator, or other proper official, published notice of his readiness to redeem them. Should he fail so to announce his readiness, or, having published notice, fail to redeem notes as they were presented, they were to bear interest for such further time as passed before they were redeemed out of the safety fund. It was in this manner that in Canada the paper of a failed bank became worth more in some circumstances, and never less in any, than the paper of a going concern. In practice, moreover, not one dollar has ever been paid from the bank circulation Redemption Fund in the redemption of failed bank's notes. "The notes of such banks failed since 1890 have all been met in the ordinary course of winding up, without resort to this interesting provision of the bank act."[a]

To the end of doing away with the discount upon the notes of solvent but distant banks, the ministry and Parliament made obligatory the maintenance of arrangements similar to those already begun by many of the

[a] Letter of T. C. Boville, Esq., deputy minister of finance, under date of May 25, 1909.

banks of their own motion. In requiring the banks, generally, to insure the circulation of all their notes at par in any and every part of Canada, the act specifically commanded the establishment of agencies of redemption and payment of notes at the commerical center of each province—Halifax, St. John, Charlottetown, Montreal, Toronto, Winnepeg, and Victoria. Obedience to the specific mandate of this section (sec. 55) has sufficed to effect execution of the general injunction. At the same time, in forcing notes more quickly back upon the issuing bank, it has served beyond question as a potent corrective of any tendencies to inflation of the circulation which the disappearance of all doubt about its security and convertibility may have brought into play. Whether from real concern or in a spirit of heckling, the Opposition had made much in the debate of the possible weakening of motives for redemption and the likely loss of one of the most important safeguards peculiar to the traditional scheme of regulation.

The third and last of the major changes affecting circulation repealed the statute of limitations so far as it affected the notes or deposits of banks which might become insolvent or go into liquidation under a general winding-up act. Moneys of this character payable by the liquidator and remaining unpaid for three years after insolvency was committed or winding up began, or remaining unpaid at the time of winding up, if that were sooner finished, had henceforth to be paid to the minister of finance, who was to hold them for the uses of the Dominion, saving the rights of the owners of the unclaimed deposits or holders of unredeemed notes. The govern-

ment by this provision also gained what slight advantage there might be from notes lost or destroyed, while for holders of notes current in 1890 or thereafter the certainty of collecting the face of their claims was permanently assured. At the same time the contributors to the safety fund were protected from claims for redemption which might be repudiated by the estate of the original promissor on the ground that the time within which they ought to be presented had expired.

To provide the security of a larger paid-up capital, the amount upon which a new bank might begin business was increased to $500,000 subscribed and $250,000 paid up. And the better to satisfy the public and the government that the foundation was real, it was stipulated that no bank should issue notes or begin business until $250,000 of its capital should have lain on deposit with the minister of finance for at least four weeks, and such longer period as might elapse until the issue of a certificate from the treasury board. Such a certificate was to issue only in case the treasury board were satisfied that the new organization had complied with all the pertinent provisions of the bank act, and only within one year from the date the bank's charter was passed.

The clauses pertaining to loans upon warehouse receipts and bills of lading were once more recast and the provisions as to loans intended to aid in the manufacture of goods considerably extended. The marked peculiarity of the provisions, both as to warehouse receipts and bills of lading, and as to loans to "manufacturers" consisted in this, that the banks might not take the security or document transferring the title to goods, wares, or mer-

chandise, except they acquired such security, or a written agreement that such security would be given, at the time of the negotiation of the bill, note, or debt for which the security was a pledge. Due formalities being observed, the bank taking documents for the commodities concerned acquired a lien prior to the claim of the unpaid vendor. For the purposes of the bank act the word "manufacturer" was defined as including "maltsters, distillers, brewers, refiners, and producers of petroleum, tanners, curers, packers, canners of meat, pork, fish, fruit, or vegetables, and any person who produces by hand, art, process, or mechanical means any goods, wares, or merchandise." Apart from the things usually understood as goods, wares, and merchandise, the phrase was defined as further including "timber deals, boards, staves, saw logs, and other lumber, petroleum, crude oil, all agricultural produce and other articles of commerce." As first brought down, the bill permitted loans on the security given by any person engaged as a wholesale manufacturer or "producer." For fear that "producer" might be held to include the farmer, whose general credit depended on the visible possession of divers chattels, such as grain, cattle, and implements, and because assignment of these under the form for such transfer would not become notorious like a chattel mortgage, the word "producer" was struck out. In their amended form the clauses read:

"SEC. 74. The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise upon the security of the goods, wares, and merchandise manufactured by him or procured for such manufacture.

"2. The bank may also lend money to any wholesale purchaser or shipper of products of agriculture, the forest, and mine, or the sea, lakes, and rivers, or to any wholesale purchaser or shipper of live stock or dead stock, and the products thereof, upon the security of such products or of such live stock or dead stock and the product thereof.

"3. Such security may be given by the owner and may be taken in the form set forth in Schedule C to this act, or to the like effect; and by virtue of such security the bank shall acquire the same rights and powers in respect to the goods, wares, and merchandise, stock or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt.[a]

"SEC. 76. If goods, wares, and merchandise are manufactured or produced from the goods, wares, and merchandise, or any of them, included in or covered by any warehouse receipt, or security given under section 74 of this act, while so covered, the bank holding such warehouse receipt or security shall hold or continue to hold such goods, wares, and merchandise during the process

[a] Following is the form given in Schedule C:

In consideration of an advance of ------ dollars, made by the (name of bank) to A. B. for which the said bank holds the following bills or notes (describe fully the bills or notes held, if any), the goods, wares, and merchandise metioned below are hereby assigned to the said bank as security for the payment, on or before the ------ day of the said advance, together with interest thereon at the rate of ---- per cent per annum from the ------ day of ------ (or of the said bills and notes or renewals thereof or substitutions therefor, and interest thereon, or as the case may be).

This security is given under the provisions of section 74 of "the bank act," and is subject to all the provisions of the said act.

The said goods, wares, and merchandise are now owned by ------ and are now in ---- possession, and are free from any mortgage, lien, or charge thereon (or as the case may be), and are in (place or places where goods are), and are the following: (particular description of goods assigned).

Dated at ------, 18----.

and after the completion of such manufacture or production with the same right and title and for the same purposes and upon the same conditions as it held or could have held the original goods, wares, and merchandise."

Apart from the four main changes and the legislation respecting secured loans now reviewed, the revision of 1890 was mostly devoted to points of minor detail. In one such clause, there was enacted a declaration of the priority of the Crown as creditor of an insolvent bank, already a prerogative by the common law, in provinces where the common law obtained, but one not recognized by Quebec courts, construing the civil law, in the suit brought by the Dominion against the estate of the Exchange Bank. The notes being always the first claim, it was now provided that any amount due the government of Canada in trust or otherwise should be the second charge on the assets of an insolvent bank; any sum due governments of the provinces, a third charge. Another amendment changed the qualification of directors in respect of stock holdings, by stipulating that they should own certain amounts of paid-up rather than merely subscribed stock, namely, $3,000 when the paid-up capital was less than $1,000,000; $4,000 when it was between $1,000,000 and $3,000,000; and $5,000 when it was more than $3,000,000. The requirements as to directors were perhaps relaxed in this, that henceforth only the majority of a board needed to be British subjects.

The increase or decrease of capital stock was permitted to shareholders acting by by-law passed in general meeting, though such by-laws were not to become effective till approved by the treasury board. Banks were required to build up their rests or surpluses to 30 per cent of the paid-

up stocks before distributing dividends of more than 8 per cent in any one year. The liability of all banks upon deposits or dividends declared and payable was continued indefinitely, notwithstanding any statute of limitations. The term prior to a suspension during which the liability of the owner of shares in a bank which subsequently fails, cannot be evaded by sale, was extended from thirty to sixty days. The use of divers titles, such as bank, banking house, banking company, by persons not authorized thereto by the bank act was forbidden altogether. Extension of undue or fraudulent preference to creditors became punishable by imprisonment not to exceed two years; the making of willfully false or deceptive returns or statements, by imprisonment not to exceed five years. Offenses against the bank act, among which was the unauthorized use of the title bank, were penalized by fines not exceeding $1,000 and imprisonment for five years, or both at the discretion of the court. For the comparatively mild penalties against overissue, provided by Sir Leonard Tilley, Doctor Foster now substituted fines which were exceedingly severe. For issue in excess of the paid-up capital, less than $1,000, the fine became the amount of such excess; for an overissue of $1,000 to $20,000, $1,000; for one of $20,000 to $100,000, $10,000; of $100,000 to $200,000, $50,000; and for an overissue of more than $200,000, a fine of $100,000 was to be imposed.

The special provisions relating to the banks under royal charter and to the Banque du Peuple (*en commandite*) were renewed. The only noteworthy contrast between the position of these banks and those with ordinary charters, was the limitation of the note issue of the Bank of

British North America and of the Banque du Peuple to 75 per cent of their respective paid-up stocks. For banks of Canadian origin and subject, or likely shortly to be subject, to the jurisdiction of the Dominion, the corporate life was continued till July 1, 1901.

In the shape to which it was wrought by the painstaking able, and thorough revision of 1890, the bank act of the Dominion has stood with but little change in form and none in its underlying principles for the past eighteen years. What new provisions have been added to the statute have been prompted by the purpose to facilitate rather than hinder the growth of the banks, or by the determination to round out and to perfect the new measures whereby the circulation has been safeguarded since 1891.

One at least of the Canadian banks having opened offices in another British colony where the pound sterling was the monetary unit, a law of 1899 (chap. 14) permitted the issue of notes intended for circulation in denominations of 1 pound sterling or multiples of the pound sterling. It was stipulated, however, that such notes should not be issued in Canada (notes for $5 being the lowest permissible there) and that they should bear legibly across their face the name of the place where, in the colony for which they were intended, they would be redeemed at par. In 1904 similar branches having been established in other British colonies where a dollar of different value than the Canadian dollar was the monetary unit, banks were permitted to issue, but only in such colonies, notes for $5, and multiples of $5, redeemable at par in the dollars recognized in the place of issue as the legal tender and the money of account. (4 Edw. VII., chap. 3.)

The third of these measures suggested by the expanding business of the banks was not passed until 1908. For some years, however, a need for it had appeared, in the closeness with which the circulation of a number of the banks, notwithstanding large increases of paid-up capital, had approached the legal limit in the active season of autumn. It was now enacted that in the crop-moving time of any year—from October 1 to January 31 of the following year—a bank might issue notes in excess of its unimpaired paid-up capital to the amount of 15 per cent of the sum of its paid-up capital and rest account (surplus) as shown by the monthly return to the government. (7–8 Edw. vii, chap. 7.)[a] As price for the privilege of overissue, any bank taking advantage of the amendment was required to pay interest upon the excess, at a rate not to exceed 5 per cent per annum, to be fixed by the governor in council. Whatever is realized by way of such interest accrues to the general revenue of the Dominion. In the month of October, 1908, five banks reported the greatest amount of their notes in circulation at $700,000 more than their capital stock; in November like figures for six banks showed an excess of $788,710, but in December all but four banks, with an excess of $304,000, were again within the limit of normal issue, and these four reported circulations less than their paid-up capitals throughout the month of January, 1909. At the highest amount outstanding in November there was still a reserve power of issue, independently of emergency privileges, of $6,865,692, shown by a comparison of the total notes in circulation to the paid-up stock of the banks.

[a] See Appendix III.

VII.—Amendments of 1900.

As the time for the decennial revision of 1900 drew near, there began among the Canadian chartered banks a movement intended to bring about, if possible, the extension to its logical conclusion of the principle recognized in 1890 by the establishment of the fund for the redemption of failed banks' notes. The initial advance had been to make the banks the joint guarantors of each others' notes; the next step, it was believed, should be to give the banks a measure of joint control over the issue, circulation, withdrawal and destruction of notes. The possibilities of the original suggestion developed under discussion; it is not too much to say that in a union for insuring the security of their circulation there finally appeared the beginnings, at any rate, of common effort toward encouraging and, if need be, enforcing the general observance of high standards of banking, the maintenance of adequate reserves, the prevention of frauds in the issue, and the administration of insolvent banks' estates to the best interest both of their creditors and of those who held their shares.

As the instrument of these purposes, the bankers suggested the Canadian Bankers' Association, a voluntary organization formed in 1892, for the common benefit and protection of the banks. Chartered banks were its members; its associate members, bank officers and bank clerks. In meetings of the association members were

represented by their chief executives for the time being; between meetings, the interests of the organization were watched, and its affairs managed, by an executive council whose liberty of action, subject, of course, to approval of the association at the annual meetings, was as wide as could be desired. In the session of 1900 Parliament gave this voluntary association the status of a public corporation in a special act and with the declared object "to promote generally the interests and efficiency of bank officers and the education and training of those contemplating employment in banks, and for such purposes, among other means, to arrange for lectures, discussions, competitive papers and examinations on commercial law and banking, and to acquire, publish, and carry on the *Journal of the Canadian Bankers' Association.* (63–64 Vic., c. 93.)

Power was accorded the association to establish subsections, to establish a clearing house for banks in any place of the Dominion, and to make rules and regulations for the conduct of clearing houses, but with the provisos that membership in a clearing house should be voluntary, that members of such organizations should have equal voice in making the rules and regulations, and that no such provisions should become effective until approved by the treasury board. "The objects and powers of the association," declared the act of incorporation, "shall be carried out and exercised by the executive council," or under norms fixed by the council. Fourteen chief executives of chartered banks, and the president and vice-president of the association, as elected at the annual meetings, made up the executive council. Resolutions, by-laws, rules,

and regulations passed by the executive council had force only until approved at the next meeting of the association and none thereafter if not approved. By-laws affecting clearing houses were of no effect until approved by the treasury board.

Further powers and functions were confirmed to the association in the measure by which the several charters were continued to 1911—the bank act itself. (63–64 Vic., c. 26.)[a] There the means were provided for taking away the control, or, at any rate, the unsupervised control of a suspended bank from its officers directly a default occurred. Under such by-laws as it might adopt the association was authorized to appoint some competent person a "curator," to supervise the property and conduct of a suspended bank. His duty was to "assume supervision of the affairs of the bank" and arrangements for the payment of outstanding notes. Generally, he was to have the powers and to take the steps necessary or expedient to protect the creditors and shareholders of the bank and to conserve and properly to dispose of its assets. Toward these purposes the curator was given access to all books and papers, documents and accounts, and was to remain in office until removed, or until the bank resumed business, or until a liquidator had been appointed for the purpose of winding it up. Under the act of 1890, as under that of 1871, a bank might suspend payment for ninety days consecutively or within the year without becoming insolvent or forfeiting its charter. The presence of a curator directly any bank suspended became especially

[a] See Appendix II for the Bank Act as revised in 1890, amended in 1900, and consolidated in 1906.

desirable as precaution against note issue during suspension. Resort to this practice, which would enable favored depositors to convert their claims into prior liens, had been prohibited in previous legislation only by the clauses against giving undue, unfair, or fraudulent preferences. Now, the law forbade it specifically by a fine of $2,000 or imprisonment for seven years, or both. Henceforth a bank once suspended had no right to resume business until the curator had given his consent in writing or to issue notes again until authorized by the treasury board so to do. The removal of a curator, no less than his powers and duties, was subjected to such rules as the association might prescribe. His remuneration as fixed by the association was made a charge upon the assets of the bank to the supervision of which he might be assigned.

Besides its duties in respect of suspended banks, the Bankers' Association was given more or less inquisitorial powers as against banks which were going concerns. It was permitted at any meeting to make by-laws, rules, and regulations respecting "the supervision of the making of the notes of the banks which are intended for circulation, and the delivery thereof to the banks, the inspection of the disposition made by the banks of such notes, the destruction of the notes of the banks, and the imposition of penalties for the breach or nonobservance of any by-law, rule, or regulation made by virtue of this section." But before any by-law or rule concerning either the appointment, powers, duties, and removal of a curator, or the exercise of supervising privileges in respect of the circulation could become effective, it was stipulated the measure should receive the approval of two-thirds of the

banks represented in the meeting at which it was put to vote, the banks so approving having two-thirds in par value of the paid-up capital represented. Nor could it become effective then, except that it was approved by the treasury board, after submission to every bank not a member of the association, and opportunity given such banks to be heard with respect to the measure.

By way of acknowledging a tendency, long more or less perceptible, toward the merger of the smaller, and in a great degree local banks into the larger and more heavily capitalized institutions of the system, parliament added to the bank act in 1900 a set of general provisions permitting and regulating the merger of banks, upon agreement to that effect between the shareholders of the selling and the management of the buying corporation concerned. The need for special act of parliament to complete the bargain thereafter disappeared. The main preliminaries were now reduced to a proposal of purchase, consent of the holders of two-thirds of the shares of the selling bank, and the approval of the governor-in-council given on recommendation of the treasury board. Strict precautions were established for meeting the liabilities of the vendors; but the purchasing bank might execute the agreement of sale under its seal without special consultation of its shareholders, except in the case that the merger involved an increase of the buying bank's capital stock.

One other change made at this time suggested in some ways the proposal for a shareholders' audit, which parliament had refused to accept two years before. No specific mention of an audit occurred now, but it was provided,

while safeguarding the privacy of personal accounts, that the directors of a bank should submit at annual meetings such further statements, other than those presenting the details already stipulated in the act, as the shareholders might require by by-law passed in any general meeting. The specific prohibition, on heavy penalties, of note issue during suspension has already been remarked. Better to adjust that rate to the current market, the rate of interest borne by a suspended bank's notes such time as they could not be redeemed, was reduced from 6 to 5 per cent. To protect the Dominion treasury, amounts paid out of the safety fund in excess of the contribution of a failed bank were made to bear interest at 3 per cent until repaid out of the estate to the minister of finance. The limit within which a bank must dispose of real property, other than bank premises, was extended from seven to twelve years. Realty held for a term longer than twelve years after it was acquired in complete or partial satisfaction of a debt became liable to forfeiture to the Crown, but only after six months' notice from the minister of finance that the Crown proposed to claim the forfeiture. Within that half year the bank could still give good title to the property. Clauses dealing with loans upon special security were amended in favor of the import trade, so that the banks might take warehouse receipts or bills of lading as security for liabilities incurred on behalf of persons to whom had been issued letters of credit. To the unpaid balances and unpaid dividends which were already the subject-matter of an annual return was added to the category of drafts and bills of exchange issued and outstanding for more than five years. Finally, the form of

the monthly statement of condition was so amended as to distinguish between deposits in Canada and elsewhere, to include the amount of bills rediscounted in the item of "loans from other banks in Canada, secured," and to show separately balances due to banks or agencies in Canada, in the United Kingdom, and elsewhere. For these changes upon the liabilities side of the form there were corresponding changes upon the assets side. Headings also were introduced to distinguish between call and short loans in Canada and current loans in Canada, from similar investments elsewhere.

The Canadian Bankers' Association, acting under its new charter, promptly prepared a set of by-laws for carrying out the provisions of its incorporation and of the bank act. As amended in April, 1901, they were approved by the treasury board and came into effect according to law. A copy of the by-laws, which include a set of uniform clearing-house rules, substantially identical with those the preparation of which had been begun in 1897, appears in Appendix VII. While the document was largely formal in character, there were embodied in it two groups of provisions in which the procedure merely suggested by the bank act was more fully developed. One such group was that which determined the fashion in which the association should exercise its supervision over the issue and circulation of notes.

In brief, a monthly return of circulation, properly verified, was required of each chartered bank doing business in the Dominion, whether a member of the association or not. The form of the return included separate headings for the credit balance of bank-note accounts on the last

day of the preceding month, inclusive of unsigned notes, notes received from printers during the month, notes destroyed during the month, balance of bank-note accounts on the last day of the month, notes on hand, whether signed or unsigned, and the notes in circulation on the last day of the month. The form of certificate setting forth the destruction of notes in the period covered by any return called for a statement of the amount and denominations, and for the attest or signature of three of the directors and of the general manager of the reporting bank. Neglect to send in the report of circulation within the first fifteen days of the month succeeding was penalized by a fine of $50 for each day's delay. Upon the executive council of the association was conferred the power by resolution at any time to direct an inspection of the circulation account of any bank. Further, an annual inspection of the circulation account of every bank of issue in Canada was provided for, and a report of the results to the council, all officers of banks under inspection being obligated to give the inspector of circulation such information and assistance as he might ask. It was also required that printed statements of the circulation returns of all the chartered banks should be forwarded each month to the chief executive of every bank in the Dominion. In the practical conduct of this scheme of inspection and verification, the returns of the banks as to new notes received have been checked up against returns of notes delivered which the bank-note engravers have agreed to furnish.

In the clauses respecting curators the by-laws directed that the remuneration of the curators for services, expenses,

and disbursements should be fixed from time to time by the executive council. They further directed that in the case of suspension of payment by a bank and the appointment of a curator to supervise its affairs, the president of the association should also appoint a local advisory board, selected, as far as possible, from the higher officers of banks situate in the place of the suspended bank's head office. It became the duty of the curator to advise with this board from time to time, and to obtain the approval of the board before taking any important step in connection with his duties.

Apart from the supervision of circulation accounts thus established and the more exact determination of the procedure in case of suspension, the Canadian Bankers' Association does not appear to have made much effort to develop the functions acquired or to extend the field of activity opened by the legislation of 1900. The report of proceedings of the annual meeting, which had previously been published in the *Journal* of the association and the newspapers of the day with a degree of fulness which made it practically complete, was condensed in 1903 to the baldest sketch. Reports of later meetings were omitted from the journal altogether. The project of competitive papers, discussions, lectures, and examinations seems, for some years, at any rate, to have been abandoned. Already in 1903 a committee, appointed for the purposes of inquiry, reported that they "had failed in arousing sufficient interest to warrant proceeding for the present with the formation of an institute."

While it was still a voluntary organization and not yet, in a sense, a recognized organ of administration, the

association's efforts were exerted as far as they might be exerted properly, against careless or too liberal insolvency legislation, projects of provincial law injuriously affecting the banks, and the incorporation of loan companies authorized to receive deposits on current account. As an organization, also, the association sought to bring about uniformity in the rate of interest paid upon deposits payable after notice or in savings bank departments, and the reduction of the rate of interest paid by the post-office and government savings banks. A system of bank money orders was devised and established in an effort to meet the competition of the express companies in remittance of minor sums. For some time, but in the end to no purpose, the association opposed the establishment of a branch of the royal mint in the Dominion. In response to a widespread demand, stimulated by the Yukon gold production and by the growth of a national self-consciousness, the government decided in 1901 to appropriate $75,000 a year to the construction and up-keep of a mint, and by so much to reduce the profit by seigniorage upon silver coin, the average of which, in the preceding decade, had been some $94,000 a year. On the other hand, the association had been successful in efforts to induce the government to prepare, at the banks' expense, to be sure, quantities of Dominion notes of large denomination, transferable only between the banks and intended for use in settlements or for the service of their reserves. It is a fair inference that notwithstanding the more informal procedure at meetings and the measure of secrecy maintained as to the nature

of its activities, the efforts of the association since 1902 have been spent in much the same direction as before.

Whether taken year by year, or viewed as a whole, the history of the banks acting under Dominion charter through the years 1889–1908 presents no more striking feature than the extraordinary growth of the banks in point of resources and strength. In capital alone the expansion was from $60,289,910 in December, 1889, to $96,457,573 in December, 1908; in rest (surplus) from $20,371,332 to $74,427,630; in circulation from $33,577,700 to $73,058,234; in total deposits, from $133,977,011 to $722,769,156; and in discounts, loans, and advances, from $170,250,693 to $546,079,996. The details of this development, condensed from the monthly return to the government to a form like that in which statistics of banking elsewhere have been arranged, are presented year by year in Appendix V. The explanation of the growth, of course, is to be sought in the thousand and one achievements of advance which have marked the economic movement of Canada the past two decades—the increase of product from farm and forest, fishery, and mine, the systematic elaboration of the railway network, the rise of Canadian credit and the influx of foreign and British funds, the powerful impulse given to industry the past ten years, the swift extension of settlement and cultivation over the virgin wheat fields of the Northwest, the heavier immigration consequent upon the practical exhaustion of the free lands of the United States, the enormously larger trade stimulated by the growth of buying power in agriculture, transportation, and com-

merce, and the augmentation in every direction of the activities of exchange. These were large movements, not yet anywhere adequately described, except in existing sources for some future historian, and not yet, perhaps, sufficiently remote wholly to be understood. But so far as can be judged now, the forward movement of the banks was neither markedly greater nor conspicuously less than the general progress in which they participated and toward which they helped.

From 1889 to 1899 the number of banks remained practically stationary at 38; in the ten years there was scarcely more than $2,000,000 capital added to their paid-up stock. Rest accounts, however, were augmented by upward of $9,000,000, and the number of branches within the Dominion from 402 to 663. The banks succeeded, moreover, in doing a considerably heavier business upon but slightly enlarged proprietors' funds. The proportion of capital and rest to total liabilities, 46.98 per cent in 1889, fell to 27.84 at the end of 1899, although the net distribution by way of dividends amounted to but 5.17 per cent upon these funds as against 5.65 per cent ten years before.

In these figures are suggested two of the most conspicuous and closely related phases of the banking movement in all these later years—the fall in banking profits measured by the unit of service, and the wide extension of the territorial distribution of the banks. The explanation of both these phases, and to no inconsiderable extent, also, the cause of them, is undoubtedly to be found in a single factor—competition. It might be, indeed it fre-

quently is argued, that between a few large banks, managed from two or at most three centers, banks whose executives are in easy reach of each other to arrange such means to temper the strife for business as a monopolistic age might suggest, competition is a factor the influence of which may safely be ignored. And it is often pointed out that since all banks, or practically all banks, allow but 3 per cent interest upon deposits, and generally charge 6 per cent upon commercial and industrial loans, even in the settled districts of the East, there is additional reason for reckoning competition a myth. The fact is, however, that instead of rate cutting in respect of these particulars, the characteristic competition between Canadian banks has appeared in efforts to outdo each other in the facilities offered, it may be the waiver of collection and agency charges—thus sadly impairing the minor profits of a bank—or it may be in the amount of accommodation offered, the ease and convenience of access to the source of loans or office of deposit. Otherwise, it could not be expected that from the provision of one office for every 11,770 of population, the banks would reduce the ratio to one office for every 2,982, as they have reduced it between 1889 and 1908. Otherwise, moreover, it would be unlikely that, with combined capital and rest equal to but 20.82 per cent of their total liabilities in 1908, as compared to 30.32 per cent in 1898 and 46.98 per cent in 1889, they should be dividing but 4.81 per cent upon proprietors' funds now, or more than eight-tenths per cent less than they were dividing in 1889. To such lengths has competition for deposits proceeded, that in latter years it is not uncom-

mon for the older and larger banks to establish new branches for the sake of $250,000 to $400,000 in prospective deposits and the discount business incidental to a community with such a store of savings, while the newer and smaller banks have been known to open offices with scarcely $150,000 of deposits and but precarious prospect of improvement in sight. Competition for deposits, in the first instance, and, secondarily, competition for good chances to lend such deposits, has been the main cause for the five-fold multiplication of chartered bank offices in less than twenty years. The same competition has been of potent influence upon the movement of discount charges and interest rates. In all this time, the difference in discount rates between communities of comparable population and borrowings, but of different distance from the financial centers, has not exceeded 1½ or 2 per cent. At the very frontier of settlement or development, where difficulty of access, the cost of maintaining an office, or the small volume of business available make the cost of banking service high, interest is naturally charged at a considerably higher rate than where banking may be conducted at something like a normal expense, though the advance of rate is seldom in proportion to the enhancement of cost. More accurately to indicate the geographical distribution of banking facilities and the consequent advance toward a perfect diffusion of the country's loan fund, there is presented in Appendix IX a table showing the increase of branches in the several provinces since 1889. The number in operation by the several chartered banks since

confederation, at intervals of five years, is shown in the table herewith:

	1869.	1874.	1879.	1884.	1889.	1894.	1899.	1904.	1908.
Ontario	100	148	188	174	231	263	321	549	918
Quebec	28	39	45	50	60	102	113	196	311
New Brunswick	6	11	13	30	32	29	34	49	58
Nova Scotia	13	27	34	51	47	58	74	101	104
Prince Edward Island	0	0	8	10	6	6	9	10	16
British Columbia	0	4	4	3	9	12	41	55	103
Manitoba	0	1	3	15	13	24	50	95	162
Northwest Territories	0	0	0	2	4	8	19	87	252
Yukon	------	------	------	------	------	------	2	3	3
All Canada	147	230	295	335	402	513	663	1,145	1,927

On December 31, 1908, the 1,927 offices were in 1,054 different places, as compared to 465 offices in 259 different places fifteen years before. Apart from their domestic establishments the banks had been steadily adding to their offices and agencies abroad. At the end of 1908, these outposts had reached the number of 50, 5 being in Newfoundland; 3 in London, England; 1 in France; 1 in Mexico; 16 in the United States; and 24, the establishments of 3 different banks, in Cuba, Jamaica, Porto Rico, and Trinidad.

No clearing house was established in the Dominion until 1887, when the bankers of Halifax first organized to this end. Prior to that time the daily exchanges and settlements were effected by the laborious and tedious method of adjustments between bank and bank. The volume of transactions for settlement, of course, had always been smaller than what would be expected of a system of an equal number of banking offices, each under independent

control. The settlement between two or between all the branches of the same bank, of course, would be effected in the books of that bank, and is so still, independently of the clearing house. The table of clearings presented in Appendix VIII, therefore, furnishes no just basis for a comparison of Canadian trade and finance, to the volume of business in a community working with numerous local banks. Too much is set off in Canada before the exchanges are ever sent to the clearing house, to permit the actual magnitude of the business to appear.

Following the example of Halifax, similar arrangements were established in Montreal in 1889 and in Toronto and Hamilton in 1893. The clearing houses of Victoria and Vancouver were established in 1898, that of St. John in 1896, those of Ottawa and Quebec in 1901, and of London in 1902. From the year 1903, when the statistics for all these cities first became complete, to 1908, the increase of clearings was from $2,689,823,000 to $4,038,808,000.

For ten years, between May 16, 1890, and May 23, 1901, no charter passed the Canadian Parliament for the incorporation of a new bank. The bill approved on the earlier date, being the first charter since 1886, was never used by those who obtained the grant. But with the more rapid broadening of the opportunities, or what men believed were opportunities, for new ventures in the banking field which appeared shortly after the turn of the century, applications for charters and bills to grant them engaged the attention of Parliament at practically every session. Between 1901 and 1908 no less than twenty-one new bank charters were passed, and authority given for $54,500,000 subscribed stock. Eight corporations out of the twenty-

one succeeded in raising the capital required before they might open a bank; the authorized capital for these eight amounted to $16,000,000. The capital actually paid up of the six banks started since 1901 and still doing business was $6,000,277 on December 31, 1908. The paid-up capital of $96,457,573, shown as the total in the report of chartered banks on that date, included $3,000,000 of a bank in liquidation. To the extent of $23,432,848, therefore, the increase of banking capital of practically $30,000,000 effected in the ten years 1898–1908 consisted of sums called up by the older banks, practically all of it issued at premiums to correspond to the book values of existing shares.

Small as were the sums collected for new ventures, compared to the contributions to older banks, the mere number of charter grants makes it difficult to believe that anything in the way of a legal monopoly of chartered rights is maintained by the government or parliament of Canada in favor of the banks already in existence. Between 1868 and 1880, as has been seen, thirty charters were granted to new projects; between 1882 and 1888, thirteen; between 1890 and 1908, twenty-two. The total is sixty-five; the number of Dominion bank charters not forfeited for nonuser since 1867 is thirty-two. Entry to the field of issue banking, it would appear, is free in Canada to whomsoever cares to enter it, provided only that his standing is not discreditable and that he or his backers have the cash. If the newcomer, once chartered and established, finds his way beset with difficulties, the circumstance is to be explained, not by any monopoly which his older competitors enjoy, but rather by their

hold upon the confidence of their clientele, and their possession of a volume of business which enables them to serve their customers at rates the profit in which, derived from transactions of smaller bulk, would be consumed for the most part by expense.

While new banks were being added, old names were being stricken off the Canadian roll. One movement of considerable significance has been the merger, mostly of the smaller banks or corporations to whose activity rather narrow geographical bounds had been set, into institutions which avowedly limit their operations to nothing short of the Dominion, and the international banking relations which may grow out of the country's foreign trade. Three such banks, the Bank of British Columbia (first established under royal charter), the Halifax Banking Company (the incorporated successors of the private bank of issue founded in Nova Scotia in 1825), and the Merchants' Bank of Prince Edward Island, were taken over by the Canadian Bank of Commerce in 1900, 1903, and 1906, respectively, in exchange for stock in the buying bank. In 1903 the Bank of Montreal bought the Exchange Bank of Yarmouth, in 1905 the People's Bank of Halifax, and in 1906 the People's Bank of New Brunswick. The Western Bank of Canada was taken over by the Standard Bank in 1908. The Northern and the Crown banks, chartered, the one in 1903 and the other in 1902, joined forces under the new name of the Northern Crown Bank in 1908. Another bank, first chartered by the province of Prince Edward Island, the Summerside Bank, was sold to the Bank of New Brunswick; the Commercial Bank of Windsor (Nova Scotia),

to the Union Bank of Halifax (1902). What with an earlier merger, that of the Union Bank of Prince Edward Island with the Bank of Nova Scotia in 1883, failures, and voluntary liquidation, the number of corporations directed from head offices in the maritime provinces has been reduced in twenty years from sixteen or more to four. The St. Stephens Bank and the Bank of New Brunswick are the only banks in the country, the history of which runs further back than 1900, which report capitals of less than a million dollars each. The St. Stephens Bank, with its paid-up stock of $200,000, remains the only surviving example of the small local banks which were more or less typical of the credit organization of the maritime provinces for many years. Two of the banks domiciled in Nova Scotia and one which formerly had its head office in Halifax have added so much to their resources and so many to their branches that in these particulars they present no contrast to the banks of widely extended operations characteristic of Ontario or Quebec.

Six of the banks acting under Dominion charter have failed since 1889; two others, now in process of winding up, have been obliged by heavy losses to withdraw from business, although, through the help of other banks, it has been possible to conduct their liquidation with open doors. The first of the failures, attributable to ill-advised or incapable administration of the bank's lending resources, and first also in point of time, was that of the Commercial Bank of Manitoba, with its head office in Winnipeg, July 3, 1893. On the date of failure the liabilities amounted to $1,344,269 and the nominal assets

to $1,954,167. Its note circulation, partly as the result of heavy withdrawals by depositors, preceding the failure, had run up to $419,485, the paid-up capital being then but $552,650. Ultimately the depositors and other creditors, as well as the note holders, were paid in full. Better to realize upon certain assets through giving the debtors more time than was originally agreed, the liquidator of the bank arranged with other banks, sometime competitors of the Commercial, for a slight extension of the period—sixty days after suspension—within which redemption of all outstanding notes should have been offered. Upon notes the redemption of which was deferred the liquidator continued to pay at the rate of 6 per cent. All but two-fifths of the circulation outstanding had been redeemed by the end of September, and all but a fifth by the end of November. The fact that the other banks accepted the notes of the failed bank freely at par relieved the public of both inconvenience and concern. From the day of suspension on, the notes of the Commercial Bank of Manitoba passed at the value inscribed on their face. The efficacy of the bank circulation redemption fund as a guaranty not only of the ultimate security, but also of the immediate convertibility of bank-note issues, thus established on the occasion of its first trial, has been demonstrated time and again, and in respect of the circulation even of such fraudulently looted concerns as the Banque Ville Marie or the Banque de St. Jean.

Notwithstanding a history that ran back to 1835, and an abundant experience of the mistakes by which prudent bankers might well have been warned, the

Banque du Peuple found itself obliged to suspend on July 16, 1895. At first it was hoped that resumption could be undertaken within the statutory term. Inquiry developed the existence of overdrafts owing by directors and others to more than 20 per cent in excess of the bank's paid-up stock. The general shareholders in this bank, it will be remembered, were liable only to the amount of their subscriptions. From these, of course, nothing further could be collected, and under the terms of a compromise, the reasons for which are somewhat obscure, but $300,000 were collected upon the joint, several, and unlimited liability of the principal partners. Under the prior lien the note holders—$787,000 in round numbers was the sum of their claim—obtained payment in full. Other creditors for $6,713,000 received but 75¼ per cent and thus lost, over and above interest and discounts accepted in anxious or precipitate realization, some $1,660,000.

Worse yet, in point of the inadequacy of the assets involved, was the failure of the Banque Ville Marie. Criminal prosecutions were undertaken by the Crown against officers of this bank, and in three of the suits the court took the view that the management had committed gross frauds, sending the general manager and cashier to the penitentiary and releasing another officer on suspended sentence. The note holders were paid in full, but the depositors realized only 17½ per cent on their claims, the total liabilities at suspension, July 25, 1899, being $1,951,346. Another French bank, in the administration of which corruption and criminal fraud were revealed by judicial inquiry, the Banque de St. Jean, failed April 28,

1908—the Ville Marie had a capital of $479,620 at suspension; this concern but $316,386. To the extent of nearly $600,000 its resources had been squandered upon most precarious and unpromising ventures, in great part to the personal speculations of the president. On April 30, 1908, its notes in circulation were $219,334.

No loss was suffered by creditors on such claims, but whether anything whatever is paid to creditors other than the government (the government claim was $43,016) depends upon what success may follow the efforts of the liquidator to collect the double liability from holders of the stock. A number of the shareholders are resisting the liquidator in the courts. The deposits, other than government deposits, amounted at the time of failure to $296,988.

As a consequence of loans to one firm out of all proportion to its own means, the Bank of Yarmouth, one of the more or less local banks domiciled in Nova Scotia, was obliged to close its doors March 6, 1905. A considerable recovery after their failure from the assets of the bank's principal debtors made it possible to pay off depositors as well as note holders in full. The sums involved were not large at the worst, the total assets of the bank at the time of its failure, March 6, 1905, being $820,143, and its liabilities on all scores, except capital stock ($300,000) but $479,323.

In the spring of 1908 the fact that the Banque de St. Hyacinthe was under large advances to the Southern Counties Railway became generally known and, in the form that the information gained currency, raised doubts as to the liquid condition of the bank's assets. The rail-

way was sold to the Delaware and Hudson Company, the money for it paid into court. Pending the result of certain suits a considerable proportion of the bank's resources was locked up. On June 23 the bank was obliged to suspend payment. Apart from a capital stock of $331,235, it had liabilities at the time of suspension of $1,182,362; its nominal assets were $1,580,097; the notes in circulation were about $250,000. These, of course, were promptly redeemed; a dividend of 25 per cent has already been paid depositors, and if the issue of the pending litigation is at all favorable to the bank, as there is ground to believe it will be, it is likely that the depositors will be paid the whole sum of their claims.

The record of Canadian bank mortality for recent years, thus far set forth, has been concerned with the troubles of comparatively small and more or less insignificant members of the system. The reason for this is close at hand—none but small banks have failed. In point of indebtedness involved or of probable loss to the shareholders, however, two other bank disasters of this period, in neither of which the threatened bank was permitted to go to failure, were more serious than any yet detailed. One of these was the collapse of the Ontario Bank, first organized in 1857, on October 13, 1906. A general manager, later sentenced to the penitentiary, had been put in charge of the bank some years earlier, in the hope that he would be able to restore to the institution the prestige and resources lost through the ill-advised and injudicious administration of the bank's assets under his predecessor. One way the new man set about to compass this task was to speculate with the bank's funds and on the bank's behalf in its own stock

and in the shares and other securities handled on the New York Stock Exchange. In the course of transactions amounting to more than $100,000,000, between 1898 and 1906, he incurred losses of $1,500,000. Over $230,000 was lost in the effort to support by purchase the local market for the shares of the bank. Some $233,000 was subsequently lost in realizing upon securities bought in New York. The certainty of the bank's going into bankruptcy, unless something were done, became clear on October 12, 1906. The executives of the larger and stronger institutions were unwilling that an estate with liabilities of $15,229,685, and nominal assets of $17,432,177, should be liquidated otherwise than with open doors. The Bank of Montreal accordingly agreed to take over the assets and assume the liabilities of the Ontario Bank, on conditions that provided for other banks standing part of the loss should the assets finally appear to be less than the debts. Nearly three years were spent in winding up the estate. The capital stock and rest of $2,200,000 were both absorbed in spite of the realization of 92.58 per cent upon loans and overdue debts amounting on October 12, 1906, to $13,116,000. Note holders were paid in full, and depositors either got the face of their claims or accepted instead the obligations of the Bank of Montreal. The shareholders, however, have been asked to contribute $576,000 upon their liability, in case of insolvency, to pay additional sums equal to the par value of their subscribed stock. Whether they do so pay depends upon the issue of suits now pending before the courts.

Established in 1901, and thus one of the first of the new banks to be organized in the latest period of marked

prosperity, the Sovereign Bank of Canada shortly acquired standing, or at any rate attention, as one of the most aggressive, energetic, and seemingly successful of the younger institutions in the field. As the result of systematic efforts on the part of its executive, efforts the nature and ingenuity of which put them among the most diverting minor episodes of Canadian bank promotion a stately share of the bank's stock—a new issue of about a million and a half—was sold, partly to one of the leading financial houses of New York and partly to one of the German securities banks. With this help the capital of the Sovereign was raised to nearly $4,000,000; the rest, for the stock was put out at a premium, to $1,250,000. Thenceforward the game of expansion, both in volume of business and in number of offices, proceeded even more merrily than before. Events showed later on that much of the borrowers' business attracted to the bank was of a highly undesirable description; that in order to make an extraordinary showing the management had time and again accepted unjustifiable risks. Among the assets of twenty-five millions odd reported at the end of April, 1907, from some ninety branches there was paper so bad or so well-nigh hopelessly doubtful as to put the future of the bank and the property of the shareholders into the gravest kind of peril. A careful valuation of these assets undertaken by experienced officers of another bank convinced them, however, that by appropriating the whole of the rest and a million of the capital, losses already or likely to be incurred would be amply covered. Their recommendations were carried out.

With a new president, general manager, and inspector, and with a number of changes in the staffs of the branches, the bank was embarked upon the effort to conduct its business along saner and safer, if less enterprising, lines than before. But although these changes gave the bank a chance to effect a reduction of five millions in its total liabilities between April and December, 1907, they were yet insufficient either to restore confidence in the venture or to keep the bank on its feet as a going concern. The middle of January, 1908, bankers in Toronto and Montreal were asked to consult upon the Sovereign's plight. Primarily to avoid a shock to credit, but also to prevent embarrassment to numerous commercial depositors and discount customers at places where the bank had offices, twelve of the other banks undertook to supply ready cash in the sum of $3,750,000 to meet the Sovereign's immediate needs. They also undertook to liquidate the bank's assets and to assume its liabilities. Such loss as might occur in the process was to be borne by the guaranteeing banks in proportion to the amounts respectively pledged by them to the fund of cash. Involved in this voluntary liquidation were $18,594,357 of nominal assets and $15,544,534 of liabilities other than capital stock. For all purposes of the public the branches of the Sovereign Bank became on January 18, 1908, the offices of that particular one of the twelve guaranteeing banks by which they had been assumed or to which they had been alloted for the purpose of winding up. Somewhere between half and three-quarters of a million deficiency is not unlikely to appear in the final stages of the liquidation. Such a

sum, and considerably more, could be collected upon the double liability of solvent shareholders. So far as can be judged now, therefore, there is small prospect of any losses falling upon the guaranteeing banks.

Appendix I.

THE FIRST DOMINION BANK ACT.[a]

AN ACT Relating to banks and banking.

[34 Vict., chap. v.]

[Assented to 14th April, 1871.]

Whereas, it is desirable that the provisions relating to the incorporation of banks, and the laws relating to banking, should be embraced, as far as practicable, in one general act: Therefore, Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The charters or acts of incorporation of the several banks enumerated in the schedule to this act (including any amendments thereof now in force) are continued as to their incorporation, the amount of capital stock, the amount of each share of such stock, and the chief place of business of each, respectively, until the first day of July, in the year of our Lord one thousand eight hundred and eighty-one, subject to the right of any such bank to increase its capital stock in the manner hereinafter provided; and as to other particulars the said charters are continued without being subject to any of the provisions of this act, except those contained in sections four, thirty-nine to fifty-four, both inclusive, and sixty to sixty-eight, both inclusive, until the first day of July, in the present year of our Lord one thousand eight hundred and seventy-one; and from and after the day last mentioned, the said charters are continued, subject to the provisions of this act,

[a] Acts of the Parliament of the Dominion of Canada, 1871. Ottawa, 1871. pp. 24–47

until the end of the then next session of Parliament; and from and after the end of such session this act shall form and be the charters of the said banks, respectively, until the first day of July, 1881, and the provisions thereof shall apply to each of them, respectively, and their present charters shall be repealed, except only as to the matters for which the said charters are above continued until the day last aforesaid.

2. The provisions of this act shall apply to any bank to be hereafter incorporated (which expression in this act includes any bank incorporated by any act passed in the present session or in any future session of the Parliament of Canada) whether this act is specially mentioned in its act of incorporation or not, as well as to all banks whose charters are hereby continued, but not to any other, unless extended to it under the special provisions hereinafter made.

3. The capital stock of any new bank, the amount of each share, the name of the bank, and the place where its chief office shall be situate, shall be declared in the act of incorporation of any bank to be hereafter incorporated.

GENERAL REGULATIONS.

4. The bank may open branches or agencies and offices of discount and deposit and transact business at any place or places in the Dominion.

5. The capital stock of the bank may be increased, from time to time, by the shareholders at any annual general meeting, or any general meeting specially called for that purpose; and such increase may be agreed on by such proportions at a time as the shareholders shall determine, and shall be decided by the majority of the votes of the shareholders present at such meeting in person or by proxy.

6. Any of the original unsubscribed capital stock, or the increased stock of a bank, shall, when the directors so determine, be allotted to the then shareholders of the bank

pro rata, and at such rate as shall be fixed by the directors, provided always that no fraction of a share shall be so allotted; and any of such allotted stock as shall not be taken up by the shareholder to whom such allotment has been made, within three months from the time when notice of the allotment has been mailed to his address, may be opened for subscription to the public, in such manner and on such terms as the directors shall prescribe.

7. No bank to be hereafter incorporated, unless it be otherwise provided by its charter, shall issue notes or commence the business of banking until five hundred thousand dollars of capital have been bona fide subscribed and one hundred thousand dollars have been bona fide paid up, nor until it shall have obtained from the treasury board a certificate to that effect, which certificate shall be granted by the treasury board when it is proved to their satisfaction that such amounts of capital have been bona fide subscribed and paid, respectively; and if at least two hundred thousand dollars of the subscribed capital of such bank has not been paid up before it shall have commenced business, such further amount as shall be required to complete the said sum shall be called in and paid up within two years thereafter, and it shall not be necessary that more than two hundred thousand dollars of the stock of any bank, whether incorporated before or after the passing of this act, be paid up within any limited period from the date of its incorporation.

8. The amount of notes intended for circulation, issued by the bank and outstanding at any time, shall never exceed the amount of its unimpaired paid-up capital. No such note for a less sum than four dollars shall be issued or reissued by the bank, and all notes for a less sum heretofore issued shall be called in and cancelled as soon as may be practicable.

9. The bank shall always receive in payment its own notes at par at any of its offices and whether they be made

payable there or not; but shall not be bound to redeem them in specie or Dominion notes at any place other than where they are made payable. The place, or one of the places, at which the notes of the bank shall be made payable shall always be its chief seat of business.

10. No dividend or bonus shall ever be made so as to impair the paid-up capital, and if any dividend or bonus be so made, the directors knowingly and willfully concurring therein, shall be jointly and severally liable for the amount thereof, as a debt due by them to the bank; and if any part of the paid-up capital be lost, the directors shall, if all the subscribed stock be not paid up, forthwith make calls upon the shareholders to an amount equivalent to such loss, and such loss (and the calls, if any) shall be mentioned in the return then next made by the bank to the government; provided that in any case where the capital has been impaired, as aforesaid, all net profits shall be applied to make good such loss.

11. No division of profits, either by way of dividends or bonus, or both combined, or in any other way, exceeding the rate of eight per cent per annum, shall be paid by the bank, unless, after paying the same, it shall have a rest or reserved fund equal to at least twenty per cent of its paid-up capital, deducting all bad and doubtful debts before calculating the amount of such rest.

12. Certified lists of the shareholders (or of the principal partners, if the bank be en commandite), with their additions and residences, and the number of shares they respectively hold, shall be laid before Parliament every year, within fifteen days after the opening of the session.

13. Monthly returns shall be made by the bank to the government in the following form, and shall be made up within the first ten days of each month, and shall exhibit the condition of the bank on the last juridical day of the month preceding; and such monthly returns shall be signed by the president or vice-president, or the director

(or, if the bank be en commandite, the principal partner) then acting as president, and by the manager, cashier, or other principal officer of the bank at its chief seat of business:

Return of the amount of liabilities and assets of the _____ bank, on the _____ day of _____, A. D. 18__.

[CAPITAL AUTHORIZED, $... CAPITAL SUBSCRIBED, $... CAPITAL PAID UP, $...]

LIABILITIES.

	$ cts.
1. Notes in circulation	
2. Government deposits payable on demand	
3. Other deposits payable on demand	
4. Government deposits payable after notice, or on a fixed day	
5. Other deposits payable after notice, or on a fixed day	
6. Due to other banks in Canada	
7. Due to other banks or agents not in Canada	
8. Liabilities not included under the foregoing heads	

ASSETS.

	$ cts.
1. Specie	
2. Provincial or Dominion notes	
3. Notes of and cheques on other banks	
4. Balances due from other banks in Canada	
5. Balances due from other banks or agents not in Canada	
6. Government debentures or stock	
7. Loans to the governments of the Dominion and of any of the provinces, respectively	
8. Loans, discounts, or advances on current account to corporations	
9. Notes and bills discounted and current	
10. Notes and bills discounted, overdue, and not specially secured	
11. Overdue debts secured by mortgage or other deed on real estate, or by deposit of or lien on stock, or by other securities	
12. Real estate the property of the bank (other than the bank premises) and mortgages on real estate sold by the bank	
13. Bank premises	
14. Other assets not included under the foregoing heads	

We declare that the foregoing return is made up from the books of the bank, and that it is correct to the best of our knowledge and belief.

(*Place*) this ____ day of _____, 18__.

A. B., *President, &c.*
C. D., *Cashier, &c.*

14. The bank shall always hold, as nearly as may be practicable, one-half of its cash reserves in dominion notes and the proportion of such reserves held in dominion notes shall never be less than one-third thereof.

15. Every bank to which this act applies shall be exempt from the tax now imposed on the average amount of its notes in circulation, to which other banks will continue liable, and from the obligation to hold any portion of its capital in government debentures or debentures of any kind.

16. The receiver-general shall make such arrangements as may be necessary for ensuring the delivery of dominion notes to any bank in exchange for an equivalent amount of specie at the several offices at which dominion notes will be redeemable, in the cities of Toronto, Montreal, Halifax, and St. John (N. B.), respectively.

INTERNAL REGULATIONS.

Shares and shareholders.

17. Books of subscription may be opened, and shares of the capital stock of the bank may be made transferable, and the dividends accruing thereon may be made payable, in the United Kingdom of Great Britain and Ireland, in like manner as such shares and dividends are respectively made transferable and payable at the head office of the bank; and to that end the directors may from time to time determine the proportion of the shares which shall be so transferable in the United Kingdom and make such rules and regulations and prescribe such forms and appoint such agent or agents as they may deem necessary.

18. The shares of the capital stock shall be paid in by such installments and at such times and places as the directors shall appoint, and executors, administrators, and curators paying the installments upon the shares of de-

ceased shareholders shall be and are respectively indemnified for paying the same: *Provided always*, That no share or shares shall be held to be lawfully subscribed for unless a sum equal to at least ten per centum on the amount subscribed for be actually paid at the time or within thirty days after the time of subscribing.

19. The shares of the capital stock of the bank shall be held and adjudged to be personal estate, and shall be assignable and transferable at the chief place of business of the bank, or at any of its branches which the directors shall appoint for that purpose, and according to such form as the directors shall prescribe; but no assignment or transfer shall be valid unless it be made and registered and accepted by the party to whom the transfer is made, in a book or books to be kept by the directors for that purpose, nor until the person or persons making the same shall, if required by the bank, previously discharge all debts or liabilities due by him, her, or them to the bank which may exceed in amount the remaining stock, if any, belonging to such person or persons, and no fractional part or parts of a share, or less than a whole share, shall be assignable or transferable; and when any share or shares of the said capital stock shall have been sold under a writ of execution, the sheriff by whom the writ shall have been executed shall, within thirty days after the sale, leave with the cashier, manager, or other officer of the bank, an attested copy of the writ, with the certificate of such sheriff endorsed thereon, certifying to whom the sale has been made, and thereupon (but not until after all debts or liabilities due by the holder or holders of the shares to the bank shall have been discharged as aforesaid), the president or vice-president, manager, or cashier of the bank, shall execute the transfer of the share or shares so sold to the purchaser; and such transfer being duly accepted, shall be to all intents and purposes as valid and effectual in law as if it had been executed by the holder or

holders of the said share or shares, any law or usage to the contrary notwithstanding.

20. A list of all transfers of shares registered each day in the books of the bank, showing the parties to such transfers and the number of shares transferred in each case, shall be made up at the end of each day and kept at the chief office of the bank for the inspection of its shareholders.

21. If the interest in any share or shares in the capital stock becomes transmitted in consequence of the death or bankruptcy or insolvency of any shareholder, or in consequence of the marriage of a female shareholder, or by any other lawful means than by a transfer according to the provisions of this act, such transmission shall be authenticated by a declaration in writing, as hereinafter mentioned, or in such other manner as the directors of the bank shall require, and every such declaration shall distinctly state the manner in which, and the party to whom, such shares shall have been transmitted, and shall be by such party made and signed; and every such declaration shall be by the party making and signing the same acknowledged before a judge of a court of record, or before the mayor, provost, or chief magistrate of a city, town, borough, or other place, or before a public notary, where the same shall be made and signed; and every declaration so signed and acknowledged shall be left with the cashier, manager, or other officer, or agent of the bank, who shall thereupon enter the name of the party entitled under such transmission in the registry of shareholders; and until such transmission shall have been so authenticated no party or person claiming by virtue of any such transmission shall be entitled to receive any share of the profits of the bank, or to vote in respect of any such share or shares: *Provided always*, That every such declaration and instrument as by this and the following section of this act is required to perfect the transmission of a share or shares in the bank

which shall be made in any other country than Canada, or some other of the British colonies in North America, or in the United Kingdom of Great Britain and Ireland, shall be further authenticated by the British consul or vice-consul, or other the accredited representative of the British Government in the country where the declaration shall be made, or shall be made directly before such British consul or vice-consul or other accredited representative: *And provided also*, That nothing in this act contained shall be held to debar the directors, cashier, or other officer or agent of the bank from requiring corroborative evidence of any fact or facts alleged in any such declaration.

22. If the transmission of any share of the capital stock be by virtue of the marriage of a female shareholder, the declaration shall be accompanied by a copy of the register of such marriage, or other particulars of the celebration thereof, and shall declare the identity of the wife with the holder of such share, and shall be made and signed by such female shareholder and her husband; and it shall be competent to them to include therein a declaration to the effect that the share transmitted is the sole property, and under the sole control of the wife, that she may receive and grant receipts for the dividends and profits accruing in respect thereof, and dispose of and transfer the share itself, without requiring the consent or authority of her husband; and such declaration shall be binding upon the bank and the parties making the same, until the said parties shall see fit to revoke it by a written notice to that effect to the bank; and further, the omission of a statement in any such declaration, that the wife making the same is duly authorized by her husband to make the same, shall not cause the declaration to be deemed either illegal or informal; any law or usage to the contrary notwithstanding.

23. If the transmissions have taken place by virtue of any testamentary instrument, or by intestacy, the probate of the will, or any letters of administration, or act of

curatorship, or an official extract therefrom, shall, together with such declaration, be produced and left with the cashier, or other officer or agent of the bank, who shall, thereupon, enter the name of the party entitled under such transmission, in the register of shareholders.

24. If the transmission of any share or shares of the capital stock of the bank be by the decease of any shareholder, the production to the directors and the deposit with them of any authenticated copy of the probate of the will of the deceased shareholder, or of letters of administration of his estate granted by any court in the Dominion having power to grant such probate or letters of administration, or by any prerogative, diocesan, or peculiar court or authority in England, Wales, Ireland, or any British colony, or of any testament testamentary or testament dative, expede in Scotland, or, if the deceased shareholder shall have died out of Her Majesty's dominions, the production to and deposit with the directors of any authenticated copy of the probate of his or her will or letters of administration of his or her property, or other documents of like import granted by any court or authority having the requisite power in such matters, shall be sufficient justification and authority to the directors for paying any dividend, or transferring, or authorizing the transfer, of any share or shares, in pursuance of and in conformity to such probate, letters of administration, or other such document as aforesaid.

25. Whenever the interest in any share or shares of the capital stock of the bank shall be transmitted by the death of any shareholder or otherwise, or whenever the ownership of or legal right of possession in any such share or shares shall change by any lawful means other than by transfer, according to the provisions of this act, and the directors of the bank shall entertain reasonable doubts as to the legality of any claim to and upon such share or shares of stock, then, and in such case, it shall be lawful

for the bank to make and file in one of the superior courts of law or equity in the province in which the head office of the bank is situated, a declaration and petition in writing, addressed to the justices of the court, setting forth the facts and the number of shares previously belonging to the party in whose name such shares stand in the books of the bank, and praying for an order or judgment adjudicating and awarding the said shares to the party or parties legally entitled to the same, and by which order or judgment the bank shall be guided and held fully harmless and indemnified and released from all and every other claim for the said shares or arising therefrom: *Provided always*, That notice of such petition shall be given to the party claiming such share or shares, or to the attorney of such party duly authorized for the purpose, who shall, upon the filing of such petition, establish his right to the several shares referred to in such petition; and the delays to plead and all other proceedings in such cases shall be the same as those observed in analogous cases before the said superior courts: *Provided also*, That the costs and expenses of procuring such order and adjudication shall be paid by the party or parties to whom the said shares shall be declared lawfully to belong, and such shares shall not be transferred until such costs and expenses be paid, saving the recourse of such party against any party contesting his right.

26. The bank shall not be bound to see to the execution of any trust, whether expressed, implied, or constructive, to which any of the shares of its stock shall be subject, and the receipt of the party in whose name any such share shall stand in the books of the bank, or, if it stands in the name of more parties than one, the receipt of one of the parties, shall be a sufficient discharge to the bank for any dividend or any other sum of money payable in respect of such share, unless express notice to the contrary has been given to the bank; and the bank shall not be bound

to see to the application of the money paid upon such receipt, whether given by one of such parties or all of them.

27. Each shareholder in the bank shall, on all occasions on which the votes of the shareholders are to be taken, have one vote for each share held by him for at least thirty days before the time of meeting. Shareholders may vote by proxy, but no person but a shareholder shall be permitted to vote or act as such proxy; and no manager, cashier, bank clerk, or other subordinate officer of the bank shall vote either in person or by proxy, or hold a proxy for that purpose. All questions proposed for the consideration of the said shareholders shall be determined by the majority of their votes; the chairman elected to preside at any such meeting of the said shareholders shall vote as a shareholder only, unless there be a tie, in which case (except as to the election of a director) he shall have a casting vote; and where two or more persons are joint holders of shares, it shall be lawful that one only of such joint holders be empowered by letter of attorney from the other joint holder or holders, or a majority of them, to represent the said shares, and vote accordingly; and in all cases when the votes of the shareholders are taken the voting shall be by ballot.

28. The shareholders in the bank shall have power to regulate by by-law the following matters incident to the management and administration of the affairs of the bank, viz: The qualification, and number of the directors, which shall not be less than five nor more than ten, and the quorum thereof; the method of filling up vacancies in the board of directors whenever the same may occur during each year; and the time and proceedings for the election of directors, in case of a failure of any election on the day appointed for it—the remuneration of the president, vice-president and other directors; and the closing of the transfer book during a certain time not exceeding fifteen days, before the payment of each semiannual divi-

dend: *Provided*, That no director shall hold less than three thousand dollars of the stock of the bank, when the paid-up capital thereof is one million dollars or less, nor less than four thousand dollars of stock when the paid-up capital thereof is over one million and does not exceed three millions, nor less than five thousand dollars of stock when the paid-up capital thereof exceeds three millions; the directors shall be elected annually by the shareholders and shall be eligible for re-election: *Provided*, That the foregoing provisions, touching directors, shall not apply to a bank en commandite, which shall in these matters be governed by the provisions of its charter. The shareholders (or if the bank be en commandite, the principal partners), may also regulate by by-law the amount of discounts or loans which may be made to directors (or if the bank be en commandite to the principal partners), either jointly or severally or to any one firm or person, or to any shareholder or to corporations: *Provided*, That until it is otherwise ordered by by-law under this section, the by-laws of the bank on any matter which can be regulated by by-law under this section shall remain in force, except as to the qualification of directors as to which they shall remain in force until the next annual general meeting of the shareholders, after the first day of July, 1871, after which no person shall be a director unless he possesses the number of shares hereby required or such greater number as may be required by any by-law in that behalf.

29. Any number not less than twenty-five of the shareholders of the bank who together may be proprietors of at least one-tenth of the paid up capital stock of the bank by themselves or by their proxies, or the directors of the bank or any four of them, shall have power at any time to call a special general meeting of the shareholders of the bank to be held at their usual place of meeting upon giving six weeks previous public notice, specifying in such notice the object or objects of such meeting; and if the object of

any such special general meeting be to consider of the proposed removal of the president, or vice-president, or of a director or directors of the said bank for maladministration or other specified and apparently just cause, then if a majority of the votes of the shareholders of such meeting be given for such removal, a director or directors to replace him or them shall be elected or appointed in the manner provided in the by-laws of the bank, or if there be no by-laws providing therefor then by the shareholders at such meeting; and if it be the president or vice-president who shall be removed, his office shall be filled up by the directors (in the manner provided in case of a vacancy occurring in the office of president or vice-president) who shall choose or elect a director to serve as such president.

President and directors.

30. The stock, property, affairs, and concerns of the bank shall be managed by a board of directors, the number to be fixed as herein provided, who shall choose from among themselves a president and vice-president; the directors shall be natural born or naturalized subjects of Her Majesty, and shall be elected on such day in each year as may be or may have been appointed by the charter or by any by-law of the bank, and at such time of the day and at such place where the head office of the bank is situate, as a majority of directors for the time being shall appoint; and public notice shall be given by the directors, by publishing the same at least four weeks in a newspaper of the place where the said head office is situate, previous to the time of holding such election; and the election shall be held and made by such of the shareholders of the bank as have paid all calls made by the directors and as shall attend for the purpose in their own proper persons or by proxy, and all elections for directors shall be by ballot, and the said proxies shall only be capable of being held and voted upon by shareholders then present, and the per-

sons, to the number fixed by by-law, as hereinbefore provided, who have the greatest number of votes at any election, shall be directors: *Provided*, That if it should happen at any election that two or more persons have an equal number of votes, and the election or nonelection of one or more of such persons as a director or directors depends on such equality, then the directors who shall have had a greater number, or the majority of them, shall determine which of the said persons so having an equal number of votes shall be the director or directors, so as to complete the full number; and in case of a vacancy occurring in the number of directors, such vacancy shall be filled in the manner provided by the by-laws, but the non-filling of the vacancy shall not vitiate the acts of a quorum of the remaining directors; and if the vacancy so created shall be that of a president or vice-president, the directors at the first meeting, after completion of their number, shall, from among themselves, elect a president or vice-president, who shall continue in office for the remainder of the year. And the said directors, as soon as may be after the said election, shall proceed in like manner to elect by ballot two of their number to be president and vice president: *Provided always*, That no person shall be eligible to be or continue a director unless he shall hold, in his name and for his own use, stock in the said bank to the amount hereinbefore provided.

31. In case it should happen that an election of directors should not be made on any day when it ought to have been made, the corporation shall not for that cause be deemed to be dissolved, but it shall be lawful on any other day to hold and make an election of directors in such manner as shall have been provided by the by-laws made by the shareholders in that behalf; and the directors then in office shall remain so until a new election shall be made.

32. At all meetings of the directors of the bank not less than three of them shall constitute a board or quorum for

the transaction of business; and at the said meetings the president, or in his absence the vice-president, or in their absence one of the directors present, to be chosen pro tempore, shall preside; and the president, vice-president, or president pro tempore so presiding shall vote as a director, and if there be an equal division on any question shall have a casting vote.

33. The directors for the time being, or a majority of them, shall have power to make such by-laws and regulations (not repugnant to the provisions of this act or the laws of the Dominion of Canada) as to them shall appear needful and proper touching the management and disposition of the stock, property, estate, and effects of the bank, and touching the duties and conduct of the officers, clerks, and servants employed therein, and all such other matters as appertain to the business of a bank, and shall also have power to appoint as many officers, clerks, and servants for carrying on the said business, and with such salaries and allowances as to them may seem meet; and they may also appoint a director or directors for any branch of the bank: *Provided always*, That before permitting any cashier, officer, clerk, or servant of the bank to enter upon the duties of his office, the directors shall require him to give bond or other security to the satisfaction of the directors for the due and faithful performance of his duties: *Provided also*, That all by-laws of the bank lawfully made before the passing of this act as to any matter respecting which the directors can make by-laws under this section (including any by-laws for establishing a guarantee fund for the employees of the bank) shall remain in force until they are repealed or altered by others made under this act.

34. The directors shall have power to make such calls of money from the several shareholders for the time being upon the shares subscribed for in the bank by them respectively as they may find necessary, and in the cor-

porate name of the bank to sue for, recover, and get in all such calls, or to cause and declare such shares to be forfeited to the bank in case of non-payment of any such call; and an action may be brought to recover any money due on any such call, and it shall not be necessary to set forth the special matter in the declaration, but it shall be sufficient to allege that the defendant is holder of one share or more, as the case may be, in the capital stock of the bank, and is indebted to the bank for a call or calls upon such share or shares in the sum to which the call or calls amount, as the case may be, stating the amount and number of such calls whereby an action hath accrued to the bank to recover the same from such defendant by virtue of this act; and it shall be sufficient to maintain such action, to prove by any one witness (a shareholder being competent), that the defendant, at the time of making any such call, was a shareholder in the number of shares alleged, and to produce the by-law or resolution of the directors making and prescribing such call, and to prove notice thereof, given in conformity with such by-law or resolution; and it shall not be necessary to prove the appointment of the directors or any other matter whatsoever, provided that such calls shall be made at intervals of not less than thirty days, and upon notice to be given at least thirty days prior to the day on which such call shall be payable; and no such call shall exceed ten per cent of each share subscribed.

35. Provided also, that if any shareholder or shareholders refuse or neglect to pay any or either of the instalments upon his, her, or their shares of the said capital stock at the time or times appointed by such call, as aforesaid, such shareholder or shareholders shall incur a forfeiture to the use of the bank of a sum of money equal to ten per centum on the amount of such shares; and, moreover, it shall be lawful for the directors of the bank (without any previous formality other than thirty days'

public notice of their intention), to sell at public auction the said shares, or so many of the said shares as shall, after deducting the reasonable expenses of the sale, yield a sum of money sufficient to pay the unpaid instalments due on the remainder of the said shares and the amount of forfeitures incurred upon the whole; and the president or vice-president, manager or cashier, of the bank shall execute the transfer to the purchaser of the shares of stock so sold; and such transfer being accepted, shall be as valid and effectual in law as if the same had been executed by the original holder or holders of the shares of stock thereby transferred: *Provided always*, That nothing in this section contained shall be held to debar the directors, or the shareholders at a general meeting, from remitting either in whole or in part, and conditionally or unconditionally, any forfeiture incurred by the nonpayment of instalments as aforesaid, or to prevent the bank from enforcing the payment of any call or calls by suit in lieu of forfeiting the same.

36. At every annual meeting of the shareholders for the election of directors, the outgoing directors shall submit a clear and full statement of the affairs of the bank, containing on the one part the amount of the capital stock paid in, the amount of notes of the bank in circulation and net profits made, the balances due to other banks and institutions, and the cash deposited in the bank, distinguishing deposits bearing interest from those not bearing interest—and on the other part, the amount of the current coin, the gold and silver bullion, and the amount of Dominion notes in the vaults of the bank, the balances due to the bank from other banks and institutions, the value of the real and other property of the bank, and the amount of debts owing to the bank, including and particularizing the amounts so owing upon bills of exchange, discounted notes, mortgages, and other securities—thus exhibiting on the one hand the liabilities

of, or the debts due by the bank, and on the other hand the assets and resources thereof; and the said statement shall also exhibit the rate and amount of the last dividend declared by the directors, the amount of reserved profits at the time of declaring the said dividend, and the amount of debts due to the bank, over due and not paid, with an estimate of the loss which will probably accrue thereon.

37. The books, correspondence and funds of the bank shall at all times be subject to the inspection of the directors; but no shareholder not being a director shall be allowed to inspect the account of any person dealing with the bank.

38. It shall be the duty of the directors of the bank to make half-yearly dividends of so much of the profits of the bank as to the majority of them may seem advisable and not inconsistent with the provisions of sections ten and eleven of this act; and to give public notice of the payment of such dividends at least thirty days previously.

POWERS AND OBLIGATIONS OF THE BANK.

Loans, interest, advances on warehouse receipts, &c.

39. The bank shall have the power to acquire and hold real and immovable estate for its actual use and occupation and the management of its business, and to sell or dispose of the same, and to acquire other property in its stead, for the same purposes.

40. The bank shall not, either directly or indirectly, lend money or make advances upon the security, mortgage, or hypothecation of any lands or tenements, or of any ships or other vessels, nor upon the security or pledge of any share or shares of the capital stock of the bank, or of any goods, wares, or merchandize, except as authorized in this act; nor shall the bank, either directly or indirectly, deal

in the buying and selling or bartering of goods, wares, or merchandize, or engage or be engaged in any trade whatever, except as a dealer in gold and silver bullion, bills of exchange, discounting of promissory notes and negotiable securities, and in such trade generally as appertains to the business of banking.

41. The bank may take, hold, and dispose of mortgages and hypothèques upon personal as well as real property, by way of additional security for debts contracted to the bank in the course of its business; and the rights, powers, and privileges which the bank is hereby declared to have or to have had in respect of real estate mortgaged to it shall be held and possessed by it, in respect of any personal estate which may be mortgaged or hypothecated to it.

42. The bank may purchase any lands or real estate offered for sale under execution at the suit of the bank, or exposed to sale by the bank under a power of sale given to it for that purpose, in cases where, under similar circumstances, an individual could so purchase, without any restriction as to the value of the lands which it may so purchase, and may acquire a title thereto as any individual purchasing at sheriff's sale or under a power of sale, in like circumstances, could do, and may take, have, hold, and dispose of the same at pleasure.

43. The bank may acquire and hold an absolute title in or to land mortgaged to it as security for a debt due or owing to it, either by obtaining a release of the equity of redemption in the mortgaged property, or by procuring a foreclosure in any court of chancery or of equity, or by other means whereby, as between individuals, an equity of redemption can by law be barred, and may purchase and acquire any prior mortgage or charge on such land.

44. Nothing in any charter, act, or law shall be construed as ever having prevented or as preventing the bank from acquiring and holding an absolute title to and in any such mortgaged lands, whatever the value thereof may be

or from exercising or acting upon any power of sale contained in any mortgage given to it or held by it, authorizing or enabling it to sell or convey away any lands so mortgaged.

45. The words "goods, wares, and merchandize" when used in the six next following sections of this act, shall be held to comprise in addition to the things usually understood thereby, timber, boards, deals, staves, and other lumber, and also all agricultural produce.

46. The bank may acquire and hold any cove receipt or any receipt by a cove keeper, or by the keeper of any wharf, yard, harbor, or other place, any bill of lading, any specification of timber, or any receipt given for cereal grains, goods, wares, or merchandize stored or deposited in any cove, wharf, yard, harbor, warehouse, mill, or other place in Canada, or shipped in any vessel or delivered to any carrier for carriage from any place whatever to any part of this Dominion, or through the same or on the waters bordering thereon, or from the same to any other place whatsoever, and whether such cereal grains are to be delivered upon such receipt in species or converted into flour, as collateral security for the due payment of any bill of exchange or note discounted by such bank in the regular course of its banking business, or for any debt which may become due to the bank under any credit opened or liability incurred by the bank for or on behalf of the holder or owner of such bill of lading, specification, or receipt, or for any other debt to become due to the bank; and such bill of lading, specification, or receipt, being so acquired, shall vest in the bank from the date of the acquisition thereof all the right and title of the last previous holder thereof, and if such holder be the agent of the owner, within the meaning of the fifty-ninth chapter of the consolidated statutes of the late Province of Canada, then all the right and title of the owner thereof to or in such cereal grains, goods, wares, or merchandize, subject to his right to have the same re-transferred to him, if such bill,

note, or debt be paid when due; and in the event of the non-payment of such bill or note or debt when due, such bank may sell the said cereal grains, goods, wares, or merchandize and retain the net proceeds, or so much thereof as will be equal to the amount due to the bank upon such bill or debt or note, with interest and costs, returning the overplus, if any, to the person from whom such instrument was acquired by the bank.

47. No transfer of any such bill of lading, specification of timber, or receipt shall be made under this act to secure the payment of any bill, note, or debt, unless such bill, note, or debt be negotiated or contracted at the time of the acquisition thereof by the bank, or upon the understanding that such bill of lading, specification of timber, or receipt would be transferred to the bank, but such bill, note, or debt may be renewed, or the time for the payment thereof extended, without affecting such security.

48. Where any person engaged in the calling of cove keeper, keeper of a wharf, yard, harbor, or other place, warehouseman, miller, wharfinger, master of a vessel or carrier, curer and packer of pork, or dealer in wool, by whom a receipt or bill of lading may be given in such capacity, as hereinbefore mentioned, for cereal grains, goods, wares, or merchandize, is the same time the owner of or entitled himself (otherwise than in his capacity of warehouseman, miller, wharfinger, master of a vessel or carrier, cove keeper, keeper of a wharf, yard, harbor, or other place, curer and packer of pork, or dealer in wool) to receive such cereal grains, goods, wares, or merchandize, any such receipt or bill of lading or any acknowledgment or certificate intended to answer the purpose of such receipt or bill of lading, made by such person, shall be as valid and effectual for the purposes of this act as if the person making such receipt, acknowledgment, or certificate or bill of lading, and the owner or person entitled to receive such cereal grains, goods, wares, or merchandize were not one and the same

person, and in the case of the curing and packing of pork a receipt for hogs shall apply to the pork made from such hogs.

49. All advances made on the security of any bill of lading, specification, receipt, acknowledgment, or certificate shall give and be held to give to the bank making such advances a claim for the repayment of such advances on the grain, goods, wares, or merchandise therein mentioned, prior to and by preference over the claim of any unpaid vendor, any law, usage, or custom to the contrary notwithstanding.

50. But no timber, boards, deals, staves, or other lumber shall be held in pledge by the bank for any period exceeding twelve calendar months, except by the consent in writing of the person pledging the same, and no sale of any timber, boards, deals, staves, or other lumber shall be made under this act until nor unless notice of the time and place of such sale shall have been given by letter mailed in the post office to the last known address of the pledger thereof at least thirty days prior to the sale thereof, and every such sale shall be made by public auction after notice thereof by advertisement, stating the time and place thereof, in at least two newspapers published in or nearest to the place where such sale is to be made, and in every issue of such newspapers during eight days, which newspapers shall be those whose issue is most frequent at or nearest the place where the sale is to be made, and if such place be in the Province of Quebec, then at least one of such newspapers shall be a newspaper published in the English language, and at least one other of such newspapers shall be a newspaper published in the French language; and no cereal grains or goods, wares or merchandise, other than timber, boards, deals, staves, and other lumber, shall be held in pledge by the bank for a period exceeding six months (except by consent of the person pledging the same), and no sale thereof shall be made by

the bank under this act until or unless notice has been given by letter mailed in the post office to the last known address of the pledger thereof at least ten days prior to such sale.

51. The bank shall not make loans or grant discounts on the security of its own stock, but shall have a privileged lien for any overdue debt on the shares and unpaid dividends of the debtor thereof, and may decline to allow any transfer of the shares of such debtor until such debt is paid, and if such debt is not paid when due the bank may sell such shares, after notice has been given to the holder thereof of the intention of the bank to sell the same, by mailing such notice in the post office to the last known address of such holder at least thirty days prior to such sale; and upon such sale being made, the president, vice-president, manager, or cashier shall execute a transfer of such shares to the purchaser thereof in the usual transfer book of the bank, which transfer shall vest in such purchaser all the rights in or to such shares which were possessed by the holder thereof, with the same obligation of warranty on his part as if he were the vendor thereof, but without any warranty from the bank or by the officer of the bank executing such transfer.

And nothing in this act contained shall prevent the bank from acquiring and holding as collateral security for any advance by or debt to the bank, or for any credit or liability incurred by the bank to or on behalf of any person (and either at the time of such advance by or the contracting of such debt to the bank, or the opening of such credit, or the incurring of such liability by the bank), the shares of the capital stock of any other bank, the bonds or debentures of municipal or other corporations, or dominion, provincial, British, or foreign public securities; and such stock, bonds, debentures, or securities may, in case of default to pay the debt for securing which they were so

acquired and held, be dealt with, sold, and conveyed in like manner and subject to the same restrictions as are herein provided in respect of stock of the bank on which it has acquired a lien under this act.

52. The bank shall not be liable to incur any penalty or forfeiture for usury; and may stipulate for, take, reserve, or exact any rate of interest or discount not exceeding seven per centum per annum, and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank. Any rate of interest whatever may be allowed by the bank upon money deposited with it.

53. The bank may, in discounting at any of its places of business, branches, agencies, or offices of discount and deposit, any note, bill, or other negotiable security or paper payable at any other of its own places or seats of business, branches, agencies, or offices of discount and deposit in Canada, receive or retain in addition to the discount any amount not exceeding the following rates per centum, according to the time it has to run, on the amount of such note, bill, or other negotiable security or paper, to defray the expenses attending the collection thereof; that is to say, under thirty days, one-eighth of one per cent; thirty days or over, but under sixty days, one-fourth of one per cent; sixty days and over, but under ninety days, three-eighths of one per cent; ninety days and over, one-half of one per cent.

54. The bank may, in discounting any note, bill, or other negotiable security or paper, bona fide payable at any place in Canada different from that at which it is discounted, and other than one of its own places or seats of business, branches, agencies, or offices of discount and deposit in Canada, receive and retain in addition to the discount thereon, a sum not exceeding one-half of one per centum on the amount thereof, to defray the expenses of agency and charges in collecting the same.

Bank notes, bonds, &c.

55. The bonds, obligations, and bills obligatory or of credit of the bank under its corporate seal and signed by the president or vice-president and countersigned by a chashier or assistant cashier, which shall be made payable to any person or persons, shall be assignable by endorsement thereon; and bills or notes of the bank signed by the president, vice-president, cashier, or other officer appointed by the directors of the bank to sign the same, promising the payment of money to any person or persons, his, her, or their order, or to the bearer, though not under the corporate seal of the bank, shall be binding and obligatory on it in like manner and with the like force and effect as they would be upon any private person, if issued by him in his private or natural capacity, and shall be assignable in like manner as if they were so issued by a private person in his natural capacity: *Provided always*, That nothing in this act shall be held to debar the directors of the bank from authorizing or deputing from time to time any cashier, assistant cashier, or officer of the bank, or any director other than the president or vice-president, or any cashier, manager, or local director of any branch or office of discount and deposit of the bank, to sign the bills of the bank intended for general circulation, and payable to order or to bearer on demand.

56. All bank notes and bills of the bank whereon the name or names of any person or persons entrusted or authorized to sign such notes or bills on behalf of the bank, shall or may become impressed by machinery provided for that purpose by or with the authority of the bank, shall be and shall be taken to be good and valid to all intents and purposes, as if such notes and bills had been subscribed in the proper handwriting of the person or persons entrusted or authorized by the bank to sign the same, respectively, and shall be and be deemed and taken to be

bank notes and bills within the meaning of all laws and statutes whatever, and shall and may be described as bank bills or notes in all indictments and civil or criminal proceedings whatsoever, any law, statute, or usage to the contrary notwithstanding.

INSOLVENCY.

57. Any suspension by the bank of payment of any of its liabilities as they accrue, in specie or Dominion notes, shall, if it continues for ninety days, constitute the bank insolvent and operate a forfeiture of its charter, so far as regards the issue or reissue of notes and other banking operations; and the charter shall remain in force only for the purpose of enabling the directors or the assignee or assignees, or other legal authority (if any be appointed in such manner as may by law be provided) to make the calls mentioned in the next following section of this act and to wind up its business; and any such assignee or assignees or other legal authority shall, for such purposes, have all the powers of the directors.

58. In the event of the property and assets of the bank becoming insufficient to pay its debts and liabilities, the shareholders of the bank shall be liable for the deficiency so far as that each shareholder shall be so liable to an amount (over and above any amount not paid up on their respective shares) equal to the amount of their shares, respectively; and if any suspension of payment in full in specie or Dominion notes, of all or any of the notes or other liabilities of the bank shall continue for six months, the directors may and shall make calls on such shareholders, to the amount they may deem necessary to pay all the debts and liabilities of the bank, without waiting for the collection of any debts due to it or the sale of any of its assets or property; such calls shall be made at intervals of thirty days and upon notice to be given thirty days

at least prior to the day on which such call shall be payable; and any such call shall not exceed twenty per cent on each share, and payment thereof may be enforced in like manner as for calls on unpaid stock, and the first of such calls shall be made within ten days after the expiration of the said six months; and any failure on the part of any shareholder liable to such call to pay the same when due, shall operate a forfeiture by such shareholder of all claim in or to any part of the assets of the bank, such call and any further call thereafter being nevertheless recoverable from him as if no such forfeiture had been incurred. *Provided always*, That nothing in this section contained shall be construed to alter or diminish the additional liabilities of the directors hereinbefore mentioned and declared: *Provided also*, That if the bank be en commandite and the principal partners are personally liable, then, in case of any such suspension such liability shall at once accrue and may be enforced against such principal partners, without waiting for any sale or discussion of the property or assets of the bank, or other preliminary proceedings whatever, and the provision respecting calls shall not apply to such bank.

59. Persons who, having been shareholders in the bank, have only transferred their shares or any of them to others or registered the transfer thereof within one month before the commencement of the suspension of payment by the bank, shall be liable to calls on such shares under the next preceding section, as if they had not transferred them, saving their recourse against those to whom they were transferred; and any assignee or other officer or person appointed to wind up the affairs of the bank, in case of its insolvency, shall have the powers of the directors with respect to such calls: *Provided*, That if the bank be en commandite, the liability of the principal partners and of the commanditaires shall continue for such time after their ceasing to be such as may be provided in the charter of

the bank, and the foregoing provisions with respect to the transfer of shares or calls shall not apply to such bank.

OFFENCES AND PENALTIES.

60. If any cashier, assistant cashier, manager, clerk, or servant of the bank secretes, embezzles, or absconds with any bond, obligation, bill obligatory or of credit or other bill or note, or any security for money, or any money or effects entrusted to him as such cashier, assistant cashier, manager, clerk, or servant, whether the same belong to the said bank or belong to any person or persons, body or bodies, politic or corporate, or institution or institutions and be lodged with the said bank, the said cashier, assistant cashier, manager, clerk, or servant so offending and being thereof convicted in due form of law, shall be deemed guilty of felony, and shall be punished by imprisonment at hard labor in the penitentiary for any term not less than two years, or by imprisonment in any gaol or place of confinement for any term less than two years, in the discretion of the court.

61. If any president, vice-president, director, principal partner en commandite, manager, cashier, or other officer of the bank wilfully gives or concurs in giving any creditor of the bank any fraudulent, undue, or unfair preference over other creditors, by giving security to such creditor or by changing the nature of his claim or otherwise howsoever, he shall be guilty of misdemeanor, and shall further be responsible for all damages sustained by any party by such preference.

62. The making of any wilfully false or deceptive statement in any account, statement, return, report, or other document respecting the affairs of the bank, shall unless it amounts to a higher offence, be a misdemeanor, and any and every president, vice-president, director, principal partner en commandite, auditor, manager, cashier, or other officer of the bank preparing, signing, approving, or

concurring in such statement, return, report, or document or using the same with intent to deceive or mislead any party, shall be held to have wilfully made such false statement, and shall further be responsible for all damages sustained by such party in consequence thereof.

63. Any director refusing to make or enforce, or to concur in making or enforcing any call under the fifty-eighth section of this act, shall be deemed guilty of a misdemeanor and shall be personally responsible for any damages suffered by such default.

64. If any miller, warehouseman, master of a vessel, forwarder, carrier, wharfinger, keeper of a cove, yard, harbor, or other place for storing timber, deals, staves, boards, or other lumber, curer or packer of pork, or dealer in wool, factor, agent, or other person, or any clerk or person in his employ, knowingly and wilfully gives to any person any writing purporting to be a receipt for, or an acknowledgement of any cereal grain, timber, deals, staves, boards, or other lumber, or other goods, wares, merchandize, or property, as having been received in his warehouse, vessel, cove, wharf, or other place, or in any such place about which he is employed, or as having been in any other manner received by him or the person in or about whose business he is employed, before the goods or property named in such receipt, acknowledgment, or writing have been actually so received by or delivered to him or his employer, with the intent to mislead, deceive, injure, or defraud any person or persons whomsoever, although such person or persons may be then to him unknown; or if any person knowingly and wilfully accepts or transmits or uses any such false receipt, acknowledgment, or writing, the person giving and the person accepting, transmitting, or using such false receipt, acknowledgment, or writing, shall severally be guilty of a misdemeanor.

65. The wilfully making any false statement in any such receipt, acknowledgment, or certificate as in the forty-

sixth section of this act mentioned, or the wilfully alienating or parting with, or not delivering to the holder or indorsee any cereal grain, goods, wares, or merchandize mentioned in such receipt, acknowledgment, or certificate, contrary to the undertaking therein expressed or implied, shall be a misdemeanor.

66. If any offence in either of the two next preceding sections mentioned be committed by the doing of anything in the name of any firm, company, or copartnership of persons, the person by whom such thing is actually done, and any person who connives at the doing thereof, shall be deemed guilty of the offence, and not any other person.

67. Any person convicted of a misdemeanor under this act shall, on conviction, be liable to be imprisoned in any gaol or place of confinement for any term not exceeding two years, in the discretion of the court before which the conviction shall be had.

68. No private person or party, except a chartered bank, shall issue or re-issue, make, draw, or indorse, any bill, bond, note, check or other instrument, intended to circulate as money, or to be used as a substitute for money, for any amount whatever, under a penalty of four hundred dollars, to be recovered, with costs, in any court having civil jurisdiction to the amount, by any party who will sue for the same; and one half of such sum shall belong to the party suing for the same, and the other half to Her Majesty, for the public uses of the Dominion:

The intention to pass any such instrument as money shall be presumed, if it be made for the payment of a less sum than twenty dollars, and be payable either in form or in fact to the bearer thereof, or at sight or on demand, or at less than thirty days thereafter, or be overdue, or be in any way calculated or designed for circulation, or as a substitute for money; unless such instrument be a check on some chartered bank, paid by the maker directly to

his immediate creditor, or a promissory note, bill of exchange, bond or other undertaking, for the payment of money paid or delivered by the maker thereof to his immediate creditor, and be not designed to circulate as a substitute for money:

Provided always, That the Halifax Banking Company may, until the end of the year 1874, continue to re-issue their notes now in circulation, but the whole of such notes shall, as far as practicable, be called in and withdrawn by the end of the said year.

NOTICES.

69. The several public notices by this act required to be given shall be given by advertisement in one or more of the newspapers published at the place where the head office of the bank is situate, and in the Canada Gazette or such other Gazette as shall be generally known and described as the Official Gazette for the publication of official documents and notices emanating from the civil government of this Dominion.

FUTURE LEGISLATION.

70. The bank shall be subject to such provisions of any general or special winding up act to be passed by Parliament as may be declared to apply to banks; and no special act which Parliament may deem it right to pass for winding up the affairs of the bank in case of its insolvency shall be deemed an infringement of its rights or of the privileges conferred by its charter.

71. The bank shall always be subject to any general provisions respecting banks which Parliament may deem necessary for the public interest.

SPECIAL PROVISIONS AS TO CERTAIN BANKS.

72. The Bank of British North America, which, by the terms of its present charter, is to be subject to the general

laws of the Dominion, with respect to banks and banking, shall not issue or re-issue in Canada any note for a less sum than four dollars, and any such note of the said bank outstanding shall be called in and redeemed as soon as practicable; and the provisions contained in the ninth, twelfth, thirteenth, fourteenth, sixteenth, forty-fifth, forty-sixth, forty-seventh, forth-eighth, forty-ninth, fiftieth, fifty-first, fifty-second, fifty-third, fifty-fourth, sixtieth, sixty-first, sixty-second, sixty-fourth, sixty-fifth, sixty-sixth, sixty-seventh, sixty-ninth, and seventy-first sections of this act, shall apply to the said bank; those contained in the other sections shall not apply to it.

73. This act shall not apply to any now existing bank not mentioned in the schedule thereunto annexed (except the Bank of British North America to the extent aforesaid and La Banque du Peuple to the extent hereinafter mentioned) unless the directors of such bank shall, by special resolution, apply to the treasury board, that the provisions of this act may be extended to such bank, nor unless the treasury board allows such application, and upon publication in the Official Gazette of such resolution, and of the minute of the treasury board thereon, allowing such application, such bank shall come under the provisions of this act.

74. In pursuance of the application made by the Bank of Nova Scotia in that behalf, it shall be lawful for the shareholders of the said bank, at any special general meeting called for the purpose, and by a by-law to be passed thereat, to reduce the capital and shares of the said bank by an amount not exceeding thirteen per cent thereof respectively, and the shares and capital shall thereafter be reckoned at the amount to which they shall be so reduced.

75. Sections four, thirty-nine to fifty-four, both inclusive, sixty, sixty-one and sixty-two, and sixty-four to sixty-eight, both inclusive, shall apply to La Banque du

Peuple from and after the passing of this act and all the other provisions of this act (except those contained in sections one, two, three, five, six, seven, twenty-seven, twenty-nine, thirty, thirty-one, thirty-two, thirty-three, thirty-five, thirty-six, thirty-seven, fifty-seven, fifty-eight, fifty-nine, sixty-three, seventy, seventy-two, seventy-three, and seventy-four, and so much of section twenty-eight as is declared not to apply to banks en commandite) shall apply from and after the first day of July next to La Banque du Peuple, provided that wherever the word "directors" is used in any of the sections which apply to the said bank it shall be read and construed as meaning the principal partners or members of the corporation of the said bank; and so much of the act incorporating the said bank or of any act amending or continuing it as may be inconsistent with any section of this act applying to the said bank or which makes any provision in any matter provided for by the said sections other than such as is hereby made, is hereby repealed.

REPEALING AND SAVING CLAUSES.

76. The act passed in the thirty-third year of Her Majesty's reign, chaptered eleven, and intituled "An act respecting banks and banking," is hereby repealed; and the act passed in the thirty-first year of Her Majesty's reign, and intituled "An act respecting banks," is hereby repealed in so far as respects banks to which this act applies, including the Bank of British North America and La Banque du Peuple, and shall cease to apply to them after the passing of this act (or after they respectively come under its provisions, if they are now existing banks and not mentioned in the schedule), except as to rights theretofore acquired under or offences committed against it, but shall remain in force as regards other banks until the end of the session of Parliament commencing next

after the first day of January, in the year of our Lord one thousand eight hundred and seventy-two.

77. Nothing in this act contained shall affect any case pending when it shall come into force, but such case shall be decided as if this act had not been passed.

SCHEDULE.

Banks whose charters are continued by this act.

The Bank of Montreal.
The Quebec Bank.
The City Bank.
The Niagara District Bank.
Molson's Bank.
The Bank of Toronto.
The Ontario Bank.
The Eastern Townships Bank.
La Banque Nationale.
La Banque Jacques Cartier.
The Merchants' Bank of Canada.
The Royal Canadian Bank.
The Union Bank of Lower Canada.
The Canadian Bank of Commerce.
The Mechanics' Bank.
The Dominion Bank.
The Merchants' Bank of Halifax.
The Bank of Nova Scotia.
The Bank of Yarmouth.

Appendix II.

THE CONSOLIDATED CANADIAN BANK ACT.

REVISED STATUTES OF CANADA, 1906.

CHAP. 29.—An Act Respecting banks and banking.

SHORT TITLE.

1. This act may be cited as the bank act. (53 V, c. 31, s. 1.)

INTERPRETATION.

2. In this act, unless the context otherwise requires, (*a*) "bank" means any bank to which this act applies; (*b*) "minister" means the minister of finance and receiver general; (*c*) "association" means the Canadian Bankers' Association, incorporated by the act passed in the session held in the sixty-third and sixty-fourth years of Her late Majesty's reign, chapter ninety-three, intituled "An act to incorporate the Canadian Bankers' Association;" (*d*) "curator" means any person appointed under the authority of this act by the Canadian Bankers' Association to supervise the affairs of any bank which has suspended payment in specie or Dominion notes of any of its liabilities as they accrue; (*e*) "circulation fund" means the fund heretofore established and continued by the authority of this act under the name of the "bank circulation redemption fund;" (*f*) "goods, wares, and merchandise" includes, in addition to the things usually understood thereby, timber, deals, boards, staves, saw logs, and other lumber, petroleum, crude oil, and all agricultural produce and other articles of commerce; (*g*) "warehouse receipt" (i) means any receipt given by any person for any goods, wares, or merchandise in his actual visible and continued possession

as bailee thereof in good faith and not as of his own property, and (ii) includes receipts, given by any person who is the owner or keeper of a harbour, cove, pond, wharf, yard, warehouse, shed, storehouse, or other place for the storage of goods, wares, or merchandise, for goods, wares, and merchandise delivered to him as bailee, and actually in the place or in one or more of the places owned or kept by him, whether such person is engaged in other business or not, and (iii) includes also receipts given by any person in charge of logs or timber in transit from timber limits or other lands to the place of destination of such logs or timber; (*h*) "bill of lading" includes all receipts for goods, wares, or merchandise, accompanied by an undertaking to transport the same from the place where they were received to some other place, by any mode of carriage whatever, whether by land or water, or partly by land and partly by water; (*i*) "manufacturer" includes manufacturers of logs, timber or lumber, maltsters, distillers, brewers, refiners and producers of petroleum, tanners, curers, packers, canners of meat, pork, fish, fruit, or vegetables, and any person who produces by hand, art, process, or mechanical means any goods, wares, or merchandise; (*j*) "president" does not include an honorary president.

2. Where by this act any public notice is required to be given the notice shall, unless otherwise specified, be given by advertisement (*a*) in one or more newspapers published at the place where the head office of the bank is situate and (*b*) in the Canada Gazette. (53 V, c. 31, ss. 2, 54, and 102; 63–64 V, c. 26, ss. 3 and 24; 4–5 E. VII, c. 4, s. 4.)

APPLICATION.

General.

3. The provisions of this act apply to the several banks enumerated in Schedule A to this act, and to every bank incorporated after the first day of January, one thousand

nine hundred and five, whether this act is specially mentioned in its act of incorporation or not, but not to any other bank, except as hereinafter specially provided. (53 V, c. 31, s. 3.)

4. The charters or acts of incorporation, and any acts in amendment thereof, of the several banks enumerated in Schedule A to this act are continued in force until the first day of July, one thousand nine hundred and eleven, so far as regards, as to each of such banks, (*a*) the incorporation and corporate name; (*b*) the amount of the authorized capital stock; (*c*) the amount of each share of such stock; and (*d*) the chief place of business; subject to the right of each of such banks to increase or reduce its authorized capital stock in the manner hereinafter provided.

2. As to all other particulars this act shall form and be the charter of each of the said banks until the first day of July, one thousand nine hundred and eleven.

3. Nothing in this section shall be deemed to continue in force any charter or act of incorporation, if, or in so far as it is, under the terms thereof, or under the terms of this act or of any other act passed or to be passed, forfeited or rendered void by reason of the nonperformance of the conditions of such charter or act of incorporation, or by reason of insolvency, or for any other reason. (63–64 V, c. 26, s. 6.)

Banks in course of winding up.

5. The provisions of this act shall continue to apply to the banks named in Schedule A to the bank act, passed in the fifty-third year of Her late Majesty's reign, chapter thirty-one, and not named in Schedule A to this act, but only in so far as may be necessary to wind up the business of the said banks respectively; and the charters or acts of incorporation of the said banks, and any acts in amendment thereof, or any acts in relation to the said banks now

in force, shall respectively continue in force for the purposes of winding up, and for such purposes only.

2. The sections of this act enumerated in the next following section shall continue to apply to the Bank of British Columbia, but only in so far as may be necessary to wind up the business of the bank. (63–64 V, c. 26, s. 5.)

The Bank of British North America.

6. The sections of this act which apply to the Bank of British North America are sections one, two, six, seven, thirty-nine, forty-five, fifty-seven to sixty-one, both inclusive, sixty-three to one hundred and twenty-four, both inclusive, one hundred and thirty, one hundred and thirty-two to one hundred and fifty-two, both inclusive, and one hundred and fifty-four to one hundred and fifty-seven, both inclusive.

2. The other sections of this act do not apply to the Bank of British North America. (53 V, c. 31, s. 6; 63–64 V, c. 26, s. 7.)

7. For the purposes of the several sections of this act made applicable to the Bank of British North America the chief office of the Bank of British North America shall be the office of the bank at Montreal in the Province of Quebec. (53 V, c. 31, s. 7.)

INCORPORATION AND ORGANIZATION OF BANKS.

8. The capital stock of every bank hereafter incorporated, the name of the bank, the place where its chief office is to be situated, and the name of the provisional directors, shall be declared in the act of incorporation of every such bank respectively. (53 V, c. 31, s. 9.)

9. An act of incorporation of a bank in the form set forth in Schedule B to this act shall be construed to confer upon the bank thereby incorporated all the powers, privileges, and immunities, and to subject it to all the

liabilities and provisions set forth in this act. (53 V, c. 31, s. 9.)

10. The capital stock of any bank hereafter incorporated shall be not less than five hundred thousand dollars, and shall be divided into shares of one hundred dollars each. (53 V, c. 31, s. 10.)

11. The number of provisional directors shall be not less than five.

2. The provisional directors shall hold office until directors are elected by the subscribers to the stock, as hereinafter provided. (53 V, c. 31, s. 11; 4–5 E. VII, c. 4, s. 1.)

12. For the purpose of organizing the bank, the provisional directors may, after giving public notice thereof, cause stock books to be opened, in which shall be recorded the subscriptions of such persons as desire to become shareholders in the bank.

2. Such books shall be opened at the place where the chief office of the bank is to be situate, and elsewhere, in the discretion of the provisional directors.

3. Such stock books may be kept open for such time as the provisional directors deem necessary. (53 V, c. 31, s. 12.)

13. So soon as a sum not less than five hundred thousand dollars of the capital stock of the bank has been bona fide subscribed, and a sum not less than two hundred and fifty thousand dollars thereof has been paid to the minister, the provisional directors may, by public notice, published for at least four weeks, call a meeting of the subscribers to the said stock, to be held in the place named in the act of incorporation as the chief place of business of the bank, at such time and at such place therein as set forth in the said notice.

2. The subscribers shall at such meeting (*a*) determine the day upon which the annual general meeting of the bank is to be held and (*b*) elect such number of directors,

duly qualified under this act, not less than five, as they think necessary.

3. Such directors shall hold office until the annual general meeting in the year next succeeding their election.

4. Upon the election of directors as aforesaid the functions of the provisional directors shall case. (53 V., c. 31, s. 13; 4–5 E. VII., c. 4, s. 2.)

14. The bank shall not issue notes or commence the business of banking until it has obtained from the treasury board a certificate permitting it to do so.

2. No application for such certificate shall be made until directors have been elected by the subscribers to the stock in the manner hereinbefore provided. (53 V., c. 31, s. 14.)

15. No certificate shall be given by the treasury board until it has been shown to the satisfaction of the board, by affidavit or otherwise, that all the requirements of this act and of the special act of incorpration of the bank, as to the payment required to be made to the minister, the election of directors, deposit for security for note issue, or other preliminaries, have been complied with, and that the sum so paid is then held by the minister.

2. No such certificate shall be given except within one year from the passing of the act of incorporation of the bank applying for the said certificate. (53 V., c. 31, s. 15.)

16. If the bank does not obtain a certificate from the treasury board within one year from the time of the passing of its act of incorporation, all the rights, powers, and privileges conferred on the bank by its act of incorporation shall thereupon cease and determine, and be of no force or effect whatever. (53 V., c. 31, s. 16.)

17. Upon the issue of the certificate in manner hereinbefore provided, the minister shall forthwith pay to the bank the amount of money so deposited with him as aforesaid, without interest, after deducting therefrom

the sum of five thousand dollars required to be deposited under the provisions of this act for the securing of the notes issued by the bank.

2. In case no certificate is issued by the treasury board within the time limited for the issue thereof, the amount so deposited shall be returned to the person depositing the same.

3. In no case shall the minister be under any obligation to see to the proper application in any way of the amount so returned. (53 V., c. 31, s. 17.)

INTERNAL REGULATIONS.

18. The shareholders of the bank may regulate, by by-law, the following matters incident to the management and administration of the affairs of the bank, that is to say: (*a*) The day upon which the annual general meeting of the shareholders for the election of directors shall be held; (*b*) the record to be kept of proxies, and the time, not exceeding thirty days, within which proxies must be produced and recorded prior to a meeting in order to entitle the holder to vote thereon; (*c*) the number of the directors, which shall be not less than five, and the quorum thereof, which shall be not less than three; (*d*) subject to the provisions hereinafter contained, the qualifications of directors; (*e*) the method of filling vacancies in the board of directors, whenever the same occur during each year; (*f*) the time and proceedings for the election of directors, in case of a failure of any election on the day appointed for it; (*g*) the remuneration of the president, vice-president and other directors; and (*h*) the amount of discounts or loans which may be made to directors, either jointly or severally, or to any one firm or person, or to any shareholder, or to corporations.

2. The shareholders may authorize the directors to establish guarantee and pension funds for the officers

and employees of the bank and their families, and to contribute thereto out of the funds of the bank.

3. Until it is otherwise prescribed by by-law under this section, the by-laws of the bank on any matter which may be regulated by by-law under this section shall remain in force, except as to any provision fixing the qualification of directors at an amount less than that prescribed by this act. (53 V., c. 31, s. 18; 4–5 E. VII., c. 4, s. 3.)

19. The stock, property, affairs, and concerns of the bank shall be managed by a board of directors, who shall be elected annually in manner hereinafter provided, and shall be eligible for reelection. (53 V., c. 31, s. 19.)

20. Each director shall (*a*) when the paid-up capital stock of the bank is one million dollars or less, hold stock of the bank on which not less than three thousand dollars have been paid up; (*b*) when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars, hold stock of the bank on which not less than four thousand dollars have been paid up; and (*c*) when the paid-up capital stock of the bank exceeds three million dollars, hold stock of the bank on which not less than five thousand dollars have been paid up.

2. No person shall be elected or continue to be a director unless he holds stock paid up to the amount required by this act, or such greater amount as is required by any by-law in that behalf.

3. A majority of the directors shall be natural born or naturalized subjects of His Majesty. (53 V., c. 31, ss. 18 and 19.)

21. The directors shall be elected by the shareholders on such day in each year as is appointed by the charter or by any by-law of the bank and at such time of the day as the directors appoint.

2. The election shall take place at the head office of the bank.

3. Public notice of the election shall be given by the directors by publishing such notice, for at least four weeks previously to the time of holding the election, in a newspaper published at the place where the head office of the bank is situate. (53 V., c. 31, s. 19.)

22. The persons, to the number authorized to be elected, who have the greatest number of votes at any election shall be directors. (53 V., c. 31, s. 19.)

23. If it happens at any election that two or more persons have an equal number of votes, and the election or nonelection of one or more of such persons as a director or directors depends on such equality, then the directors who have a greater number of votes, or the majority of them, shall, in order to complete the full number of directors, determine which of the said persons so having an equal number of votes shall be a director or directors. (53 V., c. 31, s. 19.)

24. The directors, as soon as may be after their election, shall proceed to elect, by ballot, two of their number to be president and vice-president, respectively.

2. The directors may also elect by ballot one of their number to be honorary president. (53 V., c. 31, s. 19; 4–5 E. VII., c. 4, s. 4.)

25. If a vacancy occurs in the board of directors the vacancy shall be filled in the manner provided by the by-laws: *Provided*, That if the vacancy is not filled the acts of a quorum of the remaining directors shall not be thereby invalidated. (53 V., c. 31, s. 19.)

26. If a vacancy occurs in the office of the president or vice-president, the directors shall, from among themselves, elect a president or vice-president, who shall continue in office for the remainder of the year. (53 V., c. 31, s. 19.)

27. If an election of directors is not made on the day appointed for that purpose, such election may take place on any other day, according to the by-laws made by the shareholders in that behalf.

2. The directors in office on the day appointed for the election of directors shall remain in office until a new election is made. (53 V., c. 31, s. 20.)

28. The president, or in his absence the vice-president, shall preside at all meetings of the directors.

2. If at any meeting of the directors both president and vice-president are absent, one of the directors present, chosen to act *pro tempore*, shall preside.

3. The president, vice-president, or president *pro tempore* so presiding shall vote as a director, and shall, if there is an equal division on any question, also have a casting vote. (53 V., c. 31, s. 21.)

29. The directors may make by-laws and regulations not repugnant to the provisions of this act or to the laws of Canada with respect to (*a*) the management and disposition of the stock, property, affairs, and concerns of the bank; (*b*) the duties and conduct of the officers, clerks, and servants employed therein; and (*c*) all such other matters as appertain to the business of a bank.

2. All by-laws of the bank heretofore lawfully made and now in force with regard to any matter respecting which the directors may make by-laws under this section, including any by-laws for the establishing of guarantee and pension funds for the employees of the bank, shall remain in force until they are repealed or altered by other by-laws made under this act. (53 V., c. 31, s. 22.)

30. The directors may appoint as many officers, clerks, and servants as they consider necessary for the carrying on of the business of the bank.

2. The directors may also appoint a director or directors for any branch of the bank.

3. Such officers, clerks, and servants may be paid such salaries and allowances as the directors consider necessary.

4. The directors shall, before permitting any cashier, officer, clerk, or servant of the bank to enter upon the duties of his office, require him to give a bond, guarantee, or other security to the satisfaction of the directors for the due and faithful performance of his duties. (53 V., c. 31, s. 23.)

31. A special general meeting of the shareholders of the bank may be called at any time by (*a*) the directors of the bank or any four of them; or (*b*) any number not less than twenty-five of the shareholders, acting by themselves or by their proxies, who are together proprietors of at least one-tenth of the paid-up capital stock of the bank.

2. Such directors or shareholders shall give six weeks' previous public notice, specifying therein the object of such meeting.

3. Such meeting shall be held at the usual place of meeting of the shareholders.

4. If the object of the special general meeting is to consider the proposed removal, for maladministration or other specified and apparently just cause, of the president or vice-president, or of a director of the bank, and if a majority of the votes of the shareholders at the meeting is given for such removal, a director to replace him shall be elected or appointed in the manner provided by the by-laws of the bank, or, if there are no by-laws providing therefor, by the shareholders at the meeting.

5. If it is the president or vice-president who is removed, his office shall be filled by the directors in the manner provided in case of a vacancy occurring in the office of president or vice-president. (53 V., c. 31, s. 24.)

32. Every shareholder shall, on all occasions on which the votes of the shareholders are taken, have one vote for each share held by him for at least thirty days before the time of meeting.

2. In all cases when the votes of the shareholders are taken, the voting shall be by ballot.

3. All questions proposed for the consideration of the shareholders shall be determined by a majority of the votes of the shareholders present in person or represented by proxy.

4. The chairman elected to preside at any meeting of the shareholders shall vote as a shareholder only, unless there is a tie, in which case he shall, except as to the election of a director, have a casting vote.

5. If two or more persons are joint holders of shares, any one of the joint holders may be empowered, by letter of attorney from the other joint holder or holders, or a majority of them, to represent the said shares, and to vote accordingly.

6. Shareholders may vote by proxy, but no person other than a shareholder eligible to vote shall be permitted to vote or act as proxy.

7. No manager, cashier, clerk or other subordinate officer of the bank shall vote either in person or by proxy, or hold a proxy for the purpose of voting.

8. No appointment of a proxy to vote at any meeting of the shareholders of the bank shall be valid for that purpose, unless it has been made or renewed in writing within the two years last preceding the time of such meeting.

9. No shareholder shall vote, either in person or by proxy, on any question proposed for the consideration of the shareholders of the bank at any meeting of the shareholders, or in any case in which the votes of the shareholders of the bank are taken, unless he has paid all calls made by the directors which are then due and payable. (53 V., c. 31, s. 25.)

CAPITAL STOCK.

33. The capital stock of the bank may be increased, from time to time, by such percentage, or by such amount, as is determined upon by by-law passed by the shareholders, at the annual general meeting, or at any special general meeting called for the purpose.

2. No such by-law shall come into operation, or be of any force or effect, unless and until a certificate approving thereof has been issued by the treasury board.

3. No such certificate shall be issued by the treasury board unless application therefor is made within three months from the time of the passing of the by-law, nor unless it appears to the satisfaction of the treasury board that a copy of the by-law, together with notice of intention to apply for the certificate, has been published for at least four weeks in the Canada Gazette and in one or more newspapers published in the place where the chief office or place of business of the bank is situate.

4. Nothing herein contained shall be construed to prevent the treasury board from refusing to issue such certificate if it thinks best so to do. (53 V., c. 31, s. 26.)

34. Any of the original unsubscribed capital stock, or of the increased stock of the bank, shall, when the directors so determine, be allotted to the then shareholders of the bank *pro rata*, and at such rate as is fixed by the directors: *Provided*, That (*a*) no fraction of a share shall be so allotted, and (*b*) in no case shall a rate be fixed by the directors, which will make the premium, if any, paid or payable on the stock so allotted, exceed the percentage which the reserve fund of the bank then bears to the paid-up capital stock thereof.

2. Any of such allotted stock which is not taken up by the shareholder to whom the allotment has been made within six months from the time when notice of the allotment was mailed to his address, or which he declines to

accept, may be offered for subscription to the public, in such manner and on such terms as the directors prescribe. (53 V., c. 31, s. 27.)

35. The capital stock of the bank may be reduced by by-law passed by the shareholders at the annual general meeting, or at a special general meeting called for the purpose.

2. No such by-law shall come into operation or be of force or effect until a certificate approving thereof has been issued by the treasury board.

3. No such certificate shall be issued by the treasury board unless application therefor is made within three months from the time of the passing of the by-law, nor unless it appears to the satisfaction of the board that (*a*) the shareholders voting for the by-law represent a majority in value of all the shares then issued by the bank; and (*b*) a copy of the by-law, together with notice of intention to apply to the treasury board for the issue of a certificate approving thereof, has been published for at least four weeks in the Canada Gazette and in one or more newspapers published in the place where the chief office or place of business of the bank is situate.

4. Nothing herein contained shall be construed to prevent the treasury board from refusing to issue the certificate if it thinks best so to do.

5. In addition to evidence of the passing of the by-law, and of the publication thereof in the manner in this section provided, statements showing (*a*) the amount of stock issued, (*b*) the number of shareholders represented at the meeting at which the by-law passed, (*c*) the amount of stock held by each such shareholder, (*d*) the number of shareholders who voted for the by-law, (*e*) the amount of stock held by each of such last-mentioned shareholders, (*f*) the assets and liabilities of the bank in full, and (*g*) the reasons and causes why the reduction is sought shall be

laid before the treasury board at the time of the application for the issue of a certificate approving the by-law.

6. The passing of the by-law, and any reduction of the capital stock of the bank thereunder shall not in any way diminish or interfere with the liability of the shareholders of the bank to the creditors thereof at the time of the issue of the certificate approving the by-law.

7. If in any case legislation is sought to sanction any reduction of the capital stock of any bank, a copy of the by-law or resolution passed by the shareholders in regard thereto, together with statements similar to those by this section required to be laid before the treasury board, shall, at least one month prior to the introduction into Parliament of the bill relating to such reduction, be filed with the minister.

8. The capital shall not be reduced below the amount of two hundred and fifty thousand dollars of paid-up stock. (53 V., c. 31, s. 28.)

SHARES AND CALLS.

36. The shares of the capital stock of the bank shall be personal property.

2. Books of subscription may be opened at the chief place of business of the bank, or at such of its branches, or at such place or places in the United Kingdom or in any of the British colonies or possessions as the directors prescribe.

3. The shares shall be assignable and transferable at any of the places aforesaid, according to such forms and subject to such rules and regulations as the directors prescribe.

4. The dividends accruing upon any shares of the capital stock of the bank may be made payable at any of the places aforesaid.

5. The directors may appoint such agents in the United Kingdom, or in any of the British colonies or possessions,

for the purposes of this section as they deem necessary. (53 V., c. 31, s. 29.)

37. The shares of the capital stock shall be paid in by such installments and at such times and places as the directors appoint.

2. The directors may cancel any subscription for any share unless a sum equal to ten per centum at least on the amount subscribed for is actually paid at or within thirty days after the time of subscribing.

3. Such cancellation shall not, in the event of insolvency, relieve the subscriber as hereinafter provided from his liability to creditors. (53 V., c. 31, s. 30.)

38. The directors may make such calls of money from the several shareholders for the time being upon the shares subscribed for by them, respectively, as they find necessary.

2. Such calls shall be made at intervals of not less than thirty days.

3. Notice of any such call shall be given at least thirty days prior to the day on which the call is payable.

4. No such call shall exceed ten per centum of each share subscribed. (53 V., c. 31, s. 31.)

39. If any part of the paid-up capital is lost the directors shall, if all the subscribed stock is not paid up, forthwith make calls upon the shareholders to an amount equivalent to the loss: *Provided*, That all net profits shall be applied to make good such loss.

2. Any such loss of capital and the calls, if any made in respect thereof, shall be mentioned in the next return made by the bank to the minister. (53 V., c. 31, s. 48.)

40. In case of the nonpayment of any call, the directors may, in the corporate name of the bank, sue for, recover, collect, and get in any such call, or may cause and declare the shares in respect of which any such call is made to be forfeited to the bank. (53 V., c. 31, s. 32.)

41. If any shareholder refuses or neglects to pay any installment upon his shares of the capital stock at the time appointed therefor, such shareholder shall incur a penalty, to the use of the bank, of a sum of money equal to ten per centum of the amount of such shares

2. If the directors declare any shares to be forfeited to the bank they shall, within six months thereafter, without any previous formality, other than thirty days' public notice of their intention so to do, sell at public auction the said shares, or so many of the said shares as shall, after deducting the reasonable expenses of the sale, yield a sum of money sufficient to pay the unpaid instalments due on the remainder of the said shares, and the amount of penalties incurred upon the whole.

3. The president or vice-president, manager, or cashier of the bank shall execute the transfer to the purchaser of the shares so sold; and such transfer shall be as valid and effectual in law as if it had been executed by the original holder of the shares thereby transferred.

4. The directors, or the shareholders, at a general meeting, may, notwithstanding anything in this section contained, remit, either in whole or in part, and conditionally or unconditionally, any forfeiture or penalty incurred by the nonpayment of instalments as aforesaid. (53 V., c. 31, s. 33.)

42. In any action brought to recover any money due on any call it shall not be necessary to set forth the special matter in the declaration or statement of claim, but it shall be sufficient to allege that the defendant is the holder of one share or more, as the case may be, in the capital stock of the bank, and that he is indebted to the bank for a call or calls upon such share or shares, in the sum to which the call or calls amount, as the case may be, stating the amount and number of the calls.

2. It shall not be necessary, in any such action, to prove the appointment of the directors. (53 V., c. 31, s. 34.)

TRANSFER AND TRANSMISSION OF SHARES.

43. No assignment or transfer of the shares of the capital stock of the bank shall be valid unless (*a*) made, registered, and accepted by the person to whom the transfer is made in a book or books kept for that purpose; and, (*b*) the person making the assignment or transfer has, if required by the bank, previously discharged all his debts or liabilities to the bank which exceed in amount the remaining stock, if any, belonging to such person, valued at the then current rate.

2. No fractional part of a share, or less than a whole share, shall be assignable or transferable. (53 V., c. 31, s. 35.)

44. A list of all transfers of shares registered each day in the books of the bank, showing, in each case, the parties to such transfers and the number of shares transferred, shall be made up at the end of each day.

2. Such lists shall be kept at the chief place of business of the bank, for the inspection of its shareholders. (53 V., c. 31, s. 36.)

45. All sales or transfers of shares, and all contracts and agreements in respect thereof, hereafter made or purporting to be made, shall be null and void, unless the person making the sale or transfer, or the person in whose name or behalf the sale or transfer is made, at the time of the sale or transfer (*a*) is the registered owner in the books of the bank of the share or shares so sold or transferred, or intended or purporting to be so sold or transferred; or, (*b*) has the registered owner's assent to the sale.

2. The distinguishing number or numbers, if any, of such share or shares shall be designated in the contract of agreement of sale or transfer.

3. Notwithstanding anything in this section contained, the rights and remedies under any contract of sale, which does not comply with the conditions and requirements in this section mentioned, of any purchaser who has no knowledge of such non-compliance, are hereby saved. (53 V., c. 31, s. 37.)

46. When any share of the capital stock has been sold under a writ of execution, the officer by whom the writ was executed shall, within thirty days after the sale, leave with the bank an attested copy of the writ, with the certificate of such officer endorsed thereon, certifying to whom the sale has been made.

2. The president, vice-president, manager, or cashier of the bank shall execute the transfer of the share so sold to the purchaser, but not until after all debts and liabilities to the bank of the holder of the share, and all liens in favour of the bank existing thereon, have been discharged as by this act provided.

3. Such transfer shall be to all intents and purposes as valid and effectual in law as if it had been executed by the holder of the said share. (53 V., c. 31, s. 38.)

47. If the interest in any share in the capital stock of any bank is transmitted by or in consequence of (*a*) the death, bankruptcy, or insolvency of any shareholder; or, (*b*) the marriage of a female shareholder; or, (*c*) any lawful means, other than a transfer according to the provisions of this act; the transmission shall be authenticated by a declaration in writing, as hereinafter mentioned, or in such other manner as the directors of the bank require.

2. Every such declaration shall distinctly state the manner in which and the person to whom the share has been transmitted, and shall be made and signed by such person.

3. The person making and signing the declaration shall acknowledge the same before a judge of a court of record, or before the mayor, provost or chief magistrate of a city,

town, borough, or other place, or before a notary public, where the same is made and signed.

4. Every declaration so signed and acknowledged shall be left with the cashier, manager, or other officer or agent of the bank, who shall thereupon enter the name of the person entitled under the transmission in the register of shareholders.

5. Until the transmission has been so authenticated, no person claiming by virtue thereof shall be entitled to participate in the profits of the bank, or to vote in respect of any such share of the capital stock. (53 V., c. 31, s. 39.)

48. If the transmission of any share of the capital stock has taken place by virtue of the marriage of a female shareholder, the declaration shall be accompanied by a copy of the register of such marriage, or other particulars of the celebration thereof, and shall declare the identity of the wife with the holder of such share, and shall be made and signed by such female shareholder and her husband.

2. The declaration may include a statement to the effect that the share transmitted is the separate property and under the sole control of the wife, and that she may, without requiring the consent or authority of her husband, receive and grant receipts for the dividends and profits accruing in respect thereof, and dispose of and transfer the share itself.

3. The declaration shall be binding upon the bank and persons making the same, until the said persons see fit to revoke it by a written notice to the bank to that effect.

4. The omission of a statement in any such declaration that the wife making the declaration is duly authorized by her husband to make the same shall not invalidate the declaration. (53 V., c. 31, s. 40.)

49. Every such declaration and instrument as are by the last two preceding sections required to perfect the transmission of a share in the bank shall, if made in any

country other than Canada, the United Kingdom, or a British colony (*a*) be further authenticated by the clerk of a court of record under the seal of the court, or by the British consul or vice-consul, or other accredited representative of His Majesty's Government in the country where the declaration or instrument is made; or (*b*) be made directly before such British consul, vice-consul, or other accredited representative.

2. The directors, cashier, or other officer or agent of the bank may require corroborative evidence of any fact alleged in any such declaration. (53 V., c. 31, s. 39.)

50. If the transmission has taken place by virtue of any testamentary instrument, or by intestacy, the probate of the will, or the letters of administration, or act of curatorship or tutorship, or an official extract therefrom, shall, together with the declaration, be produced and left with the cashier or other officer or agent of the bank.

2. The cashier or other officer or agent shall thereupon enter in the register of shareholders the name of the person entitled under the transmission. (53 V., c. 31, s. 41.)

51. If the transmission of any share of the capital stock has taken place by virtue of the decease of any shareholder, the production to the directors and the deposit with them of (*a*) any authenticated copy of the probate of the will of the deceased shareholder, or of letters of administration of his estate, or of letters of verification of heirship, or of the act of curatorship or tutorship, granted by any court in Canada having power to grant the same, or by any court or authority in England, Wales, Ireland, or any British colony, or of any testament, testamentary or testament dative expede in Scotland; or (*b*) an authentic notarial copy of the will of the deceased shareholder, if such will is in notarial form according to the law of the province of Quebec; or (*c*) if the deceased shareholder died out of His Majesty's dominions, any authenticated copy of the probate of his will or letters of administration

of his property, or other document of like import, granted by any court or authority having the requisite power in such matters; shall be sufficient justification and authority to the directors for paying any dividend, or for transferring or authorizing the transfer of any share, in pursuance of and in conformity to the probate, letters of administration, or other such document as aforesaid. (53 V., c. 31, s. 42.)

SHARES SUBJECT TO TRUSTS.

52. The bank shall not be bound to see to the execution of any trust, whether expressed, implied, or constructive, to which any share of its stock is subject.

2. The receipt of the person in whose name any such share stands in the books of the bank, or, if it stands in the names of more persons than one, the receipt of one of such persons, shall be a sufficient discharge to the bank for any dividend or any other sum of money payable in respect of such share, unless, previously to such payment, express notice to the contrary has been given to the bank.

3. The bank shall not be bound to see to the application of the money paid upon such receipt, whether given by one of such persons or all of them. (53 V., c. 31, s. 43.)

53. No person holding stock in the bank as executor, administrator, guardian, trustee, tutor, or curator of or for any estate, trust, or person named in the books of the bank as being so represented by him, shall be personally subject to any liability as a shareholder; but the estate and funds in his hands shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such estate and funds would be, if living and competent to hold the stock in his own name.

2. If the trust is for a living person, such person shall also himself be liable as a shareholder.

3. If the estate, trust, or person so represented is not so named in the books of the bank, the executor, administra-

tor, guardian, trustee, tutor, or curator shall be personally liable in respect of the stock as if he held it in his own name as owner thereof. (63–64 V., c. 26, s. 8.)

ANNUAL STATEMENT AND INSPECTION.

54. At every annual meeting of the shareholders for the election of directors, the outgoing directors shall submit a clear and full statement of the affairs of the bank, exhibiting, on the one hand, the liabilities of or the debts due by the bank, and, on the other hand, the assets and resources thereof.

2. The statement shall show, on the one part, (*a*) the amount of the capital stock paid in; (*b*) the amount of the notes of the bank in circulation; (*c*) the net profits made; (*d*) the balances due to other banks; and (*e*) the cash deposited in the bank, distinguishing deposits bearing interest from those not bearing interest.

3. The statement shall show, on the other part, (*a*) the amount of the current coin, the gold and silver bullion, and the dominion notes held by the bank; (*b*) the balances due to the bank from other banks; (*c*) the value of the real and other property of the bank; and (*d*) the amount of debts owing to the bank, including and particularizing the amounts so owing upon bills of exchange, discounted notes, mortgages, and other securities.

4. The statement shall also exhibit (*a*) the rate and amount of the last dividend declared by the directors; (*b*) the amount of reserved profits at the date of such statement; and (*c*) the amount of debts due to the bank, overdue and not paid, with an estimate of the loss which will probably accrue thereon. (53 V., c. 31, s. 45.)

55. The directors shall also submit to the shareholders such further statements of the affairs of the bank other than statements with reference to the account of any person dealing with the bank as the shareholders require by

by-law passed at the annual general meeting or at any special general meeting of the shareholders called for the purpose.

2. The statements so required shall be submitted at the annual general meeting, or at any special general meeting called for the purpose, or at such time and in such manner as is set forth in the by-law of the shareholders requiring such statements. (63–64 V., c. 26, s. 9.)

56. The books, correspondence, and funds of the bank shall, at all times, be subject to the inspection of the directors.

2. No person who is not a director shall be allowed to inspect the account of any person dealing with the bank. (53 V., c. 31, s. 46.)

DIVIDENDS.

57. The directors of the bank shall, subject to the provisions of this act, declare quarterly or half-yearly dividends of so much of the profits of the bank as to the majority of them seems advisable.

2. The directors shall give at least thirty days' public notice of the payment of such dividends previously to the date fixed for such payment.

3. The directors may close the transfer books during a certain time, not exceeding fifteen days, before the payment of each dvidend. (53 V., c. 31, s. 47.)

58. No dividend or bonus shall ever be declared so as to impair the paid-up capital of the bank.

2. The directors who knowingly and wilfully concur in the declaration or making payable of any dividend or bonus whereby the paid-up capital of the bank is impaired shall be jointly and severally liable for the amount of such dividend or bonus as a debt due by them to the bank. (53 V., c. 31, s. 48.)

59. No division of profits, either by way of dividends or bonus, or both combined, or in any other way, exceeding

the rate of eight per centum per annum, shall be made by the bank unless after making the same the bank has a rest or reserve fund equal to at least thirty per cent of its paid-up capital after deducting all bad and doubtful debts. (53 V., c. 31, s. 49.)

CASH RESERVES.

60. The bank shall hold not less than forty per centum of its cash reserves in dominion notes.

2. The minister shall make such arrangements as are necessary for ensuring the delivery of dominion notes to any bank in exchange for an equivalent amount of specie at the several offices at which dominion notes are redeemable in the cities of Toronto, Montreal, Halifax, St. John, Winnipeg, Victoria, and Charlottetown, respectively.

3. Such notes shall be redeemable at the office for redemption of dominion notes in the place where the specie is given in exchange. (53 V., c. 31, s. 50.)

THE ISSUE AND CIRCULATION OF NOTES.

61. The bank may issue and reissue notes payable to bearer on demand and intended for circulation: *Provided*, That (*a*) the bank shall not, during any period of suspension of payment of its liabilities issue or reissue any such notes; and (*b*) if, after any such suspension, the bank resumes business without the consent in writing of the curator, hereinafter provided for, it shall not issue or reissue any of such notes until authorized by the treasury board so to do.

2. No such note shall be for a sum less than five dollars or for any sum which is not a multiple of five dollars.

3. The total amount of such notes in circulation at any time shall not exceed the amount of the unimpaired paid-up capital of the bank.

4. Notwithstanding anything in this section contained, the total amount of such notes of the Bank of British

North America in circulation at any time shall not exceed seventy-five per centum of the unimpaired paid-up capital of the bank: *Provided*, That (*a*) the bank may issue such notes in excess of the said seventy-five per centum upon depositing with the minister, in respect of the excess, in cash or bonds of the Dominion of Canada, an amount equal to the excess; and the cash or bonds so deposited shall, in the event of the suspension of the bank, be available by the minister for the redemption of the notes issued in excess as aforesaid; and (*b*) the total amount of such notes of the bank in circulation at any time shall in no case exceed its unimpaired paid-up capital.

5. All notes heretofore issued or reissued by any bank and now in circulation, which are for a sum less than five dollars or for a sum which is not a multiple of five dollars, shall be called in and canceled as soon as practicable. (53 V., c. 31, s. 51; 63–64 V., c. 26, s. 10.)

62. Notwithstanding the provisions of the last preceding section, any bank may issue and reissue, at any office or agency of the bank in any British colony or possession other than Canada, notes of the bank payable to bearer on demand and intended for circulation in such colony or possession, for the sum of one pound sterling each, or for any multiple of such sum, or for the sum of five dollars each, or for any multiple of such sum, of the dollars in commercial use in such colony or possession, if the issue or reissue of such notes is not forbidden by the laws of such colony or possession.

2. No issue of notes of the denomination of five such dollars, or any multiple thereof, shall be made in any such British colony or possession unless nor until the governor in council on the report of the treasury board determines the rate in Canadian currency at which such notes shall be circulated as forming part of the total amount of the

notes in circulation within the meaning of the last preceding section.

3. The notes so issued shall be redeemable at par at any office or agency of the bank in the colony or possession in which they are issued for circulation and not elsewhere, except as in this section specially provided; and the place of redemption of such notes shall be legibly printed or stamped across the face of each note so issued.

4. In the event of the bank ceasing to have an office or agency in any such British colony or possession, all notes issued in such colony or possession under the provisions of this section shall become payable and redeemable at the rate of four dollars and eighty-six and two-thirds cents per pound sterling, or, in the case of the issue of notes of the denomination of five dollars or any multiple thereof, of the dollars in commercial use in such colony or possession, at the rate established by the governor in council as required by this section, in the same manner as notes of the bank issued in Canada are payable and redeemable.

5. The amount of the notes at any time in circulation in any such colony or possession, issued under the provisions of this section, shall, at the rate mentioned in the last preceding subsection, form part of the total amount of the notes in circulation within the meaning of the last preceding section, and, except as herein otherwise specially provided, shall be subject to all the provisions of this act.

6. No notes issued for circulation in a British colony or possession other than Canada shall be reissued in Canada.

7. Nothing in this section contained shall be construed to authorize any bank (*a*) to increase the total amount of its notes in circulation in Canada and elsewhere beyond the limit fixed by the last preceding section, or (*b*) to issue or reissue in Canada notes payable to bearer on demand and intended for circulation for a sum less than

five dollars or for a sum which is not a multiple of five dollars. (4 E. VII., c. 3, ss. 1, 2, 3, and 4.)

63. The bank shall not pledge, assign, or hypothecate its notes; and no advance or loan made on the security of the notes of a bank shall be recoverable from the bank or its assets. (53 V., c. 31, s. 52.)

64. The moneys heretofore paid to and now deposited with the minister by the banks to which this act applies, constituting the fund known as the bank circulation redemption fund, shall continue to be held by the minister for the purposes and subject to the provisions in this section mentioned and contained.

2. The minister shall, upon the issue of a certificate under this act authorizing a bank to issue notes and commence the business of banking, retain, out of any moneys of such bank then in his possession, the sum of five thousand dollars, which sum shall be held for the purposes of this section until the annual adjustment hereinafter provided for takes place in the year then next following.

3. The amount at the credit of such bank shall, at such next annual adjustment, be adjusted by payment to or by the bank of such sum as is necessary to make the amount of money at the credit of the bank equal to five per centum of the average amount of its notes in circulation from the time it commenced business to the time of such adjustment, and such sum shall thereafter be adjusted annually as hereinafter provided.

4. The amounts heretofore and from time to time hereafter paid, to be retained and held by the minister as by this section provided, shall continue to form and shall form the circulation fund.

5. The circulation fund shall continue to be held as heretofore for the sole purpose of payment, in the event of the suspension by a bank of payment in specie or Dominion notes of any of its liabilities as they accrue, of the notes

then issued or reissued by such bank, intended for circulation, and then in circulation, and interest thereon.

6. The circulation fund shall bear interest at the rate of three per centum per annum.

7. The circulation fund shall be adjusted, as soon as possible after the thirtieth day of June in each year, in such a way as to make the amount at the credit of each bank contributing thereto, unless herein otherwise specially provided, equal to five per centum of the average note circulation of such bank during the then last preceding twelve months.

8. The average note circulation of a bank during any period shall be determined from the average of the amount of its notes in circulation, as shown by the monthly returns for such period made by the bank to the minister; and where, in any return, the greatest amount of notes in circulation at any time during the month is given, such amount shall, for the purposes of this section, be taken to be the amount of the notes of the bank in circulation during the month to which such return relates.

9. The minister shall with respect to all notes paid out of the circulation fund have the same rights as any other holder of the notes of the bank: *Provided*, That all such notes, and all interest thereon, so paid by the minister, after the amount at the credit of such bank in the circulation fund, and all interest due or accruing due thereon, has been exhausted, shall bear interest, at the rate of three per centum per annum, from the time such notes and interest are paid until such notes and interest are repaid to the minister by or out of the assets of such bank. (53 V., c. 31, s. 54; 63–64 V., c. 26, s. 13.)

65. In the event of the suspension by a bank of payment in specie or Dominion notes of any of its liabilities as they accrue, the notes of the bank, issued or reissued, intended for circulation, and then in circulation, shall bear interest at the rate of five per centum per annum,

from the day of the suspension to such day as is named by the directors, or by the liquidator, receiver, assignee, or other proper official, for the payment thereof.

2. Notice of such day shall be given by advertising for at least three days in a newspaper published in the place in which the head office of the bank is situate.

3. If any notes presented for payment on or after any day named for payment thereof are not paid, all notes then unpaid and in circulation shall continue to bear interest until such further day as is named for payment thereof, of which day notice shall be given in manner hereinbefore provided.

4. If the directors of the bank or the liquidator, receiver, assignee, or other proper official fails to make arrangements. within two months from the day of the suspension of payment by the bank, for the payment of all of its notes and interest thereon, the minister may make arrangements for the payment, out of the circulation fund, of the notes remaining unpaid and all interest thereon, and the minister shall give such notice of the payment as he thinks expedient.

5. Nothwithstanding anything herein contained all interest upon such notes shall cease upon and from the date named by the minister for such payment.

6. Nothing herein contained shall be construed to impose any liability upon the government of Canada, or upon the minister, beyond the amount available from time to time out of the circulation fund. (53 V., c. 31, s. 54; 63–64 V., c. 26, s. 11.)

66. All payments made from the circulation fund shall be without regard to the amount contributed thereto by the bank in respect of whose notes the payments are made.

2. If the payments from the circulation fund exceed the amount contributed to the circulation fund by the bank so suspending payment, and all interest due or accruing due to such bank thereon, the other banks to which this

act applies shall, on demand, made good to the circulation fund the amount of the excess, proportionately to the amount which each such other bank had or should have contributed to the circulation fund, at the time of the suspension of the bank in respect of whose notes the payments are made: *Provided*, That (*a*) each of such other banks shall only be called upon to make good to the circulation fund its share of the excess in payments not exceeding, in any one year, one per centum of the average amount of its notes in circulation; (*b*) such circulation shall be ascertained in such manner as the minister decides; and (*c*) the minister's decision shall be final.

3. All amounts recovered and received by the minister from the bank on account of which such payments were made shall, after the amount of such excess has been made good as aforesaid, be distributed among the banks contributing to make good such excess, proportionately to the amount contributed by each. (53 V., c. 31, s. 54; 63–64 V., c. 26, s. 12.)

67. In the event of the winding up of the business of a bank by reason of insolvency or otherwise, the treasury board may, on the application of the directors, or of the liquidator, receiver, assignee, or other proper official, and on being satisfied that proper arrangements have been made for the payment of the notes of the bank and any interest thereon, pay over to the directors, liquidator, receiver, assignee, or other proper official, the amount of the circulation fund at the credit of the bank, or such portion thereof as it thinks expedient. (53 V., c. 31, s. 54.)

68. The treasury board may make all such rules and regulations as it thinks expedient with reference to (*a*) the payment of any moneys out of the circulation fund, and the manner, place, and time of such payments; (*b*) the collection of all amounts due to the circulation fund; (*c*) all accounts to be kept in connection therewith; and

(*d*) generally the management of the circulation fund and all matters relating thereto. (53 V., c. 31, s. 54.)

69. The minister may, in his official name, by action in the exchequer court of Canada, enforce payment, with cost of action, of any sum due and payable by any bank which should form part of the circulation fund. (53 V., c. 31, s. 54.)

70. The bank shall make such arrangements as are necessary to insure the circulation at par, in any and every part of Canada, of all notes issued or reissued by it and intended for circulation; and towards this purpose the bank shall establish agencies for the redemption and payment of its notes at the cities of Toronto, Montreal, Halifax, St. John, Winnipeg, Victoria, and Charlottetown, and at such other places as are from time to time designated by the treasury board. (53 V., c. 31, s. 55.)

71. The bank shall always receive in payment its own notes at par at any of its offices, and whether they are made payable there or not.

2. The chief place of business of the bank shall always be one of the places at which its notes are made payable. (53 V., c. 31, s. 56.)

72. The bank, when making any payment, shall, on the request of the person to whom the payment is to be made, pay the same, or such part thereof, not exceeding one hundred dollars, as such person requests, in Dominion notes for one, two, or four dollars each, at the option of such person.

2. No payment, whether in Dominion notes or bank notes, shall be made in bills that are torn or partially defaced by excessive handling. (53 V., c. 31, s. 57.)

73. The bonds, obligations, and bills, obligatory or of credit, of the bank under its corporate seal, signed by the president or vice-president, and countersigned by a cashier or assistant cashier, which are made payable to any person, shall be assignable by indorsement thereon.

2. The bills or notes of the bank signed by the president, vice-president, cashier, or other officer appointed by the directors of the bank to sign the same, promising the payment of money to any person, or to his order, or to the bearer, though not under the corporate seal of the bank, shall be binding and obligatory on the bank, in like manner and with the like force and effect as they would be upon any private person, if issued by him in his private or natural capacity, and shall be assignable in like manner as if they were so issued by a private person in his natural capacity.

3. The directors of the bank may, from time to time, authorize or depute any cashier, assistant cashier, or officer of the bank, or any director other than the president or vice-president, or any cashier, manager, or local director of any branch or office of discount and deposit of the bank, to sign the notes of the bank intended for circulation. (53 V., c. 31, s. 58.)

74. All bank notes and bills whereon the name of any person intrusted or authorized to sign such notes or bills on behalf of the bank is impressed by machinery provided for that purpose, by or with the authority of the bank, shall be good and valid to all intents and purposes, as if such notes and bills had been subscribed in the proper handwriting of the person intrusted or authorized by the bank to sign the same respectively, and shall be bank notes and bills within the meaning of all laws and statutes whatever, and may be described as bank notes or bills in all indictments and civil or criminal proceedings whatever: *Provided*, That at least one signature to each note or bill must be in the actual handwriting of a person authorized to sign such note or bill. (53 V., c. 31, s. 59.)

75. Every officer charged with the receipt or disbursement of public moneys, and every officer of any bank, and every person acting as or employed by any banker, shall

stamp or write in plain letters, upon every counterfeit or fraudulent note issued in the form of a Dominion or bank note, and intended to circulate as money, which is presented to him at his place of business, the word, "Counterfeit," "Altered," or "Worthless."

2. If such officer or person wrongfully stamps any genuine note he shall, upon presentation, redeem it at the face value thereof. (53 V., c. 31, s. 62.)

THE BUSINESS AND POWERS OF A BANK.

76. The bank may (*a*) open branches, agencies and offices; (*b*) engage in and carry on business as a dealer in gold and silver coin and bullion; (*c*) deal in, discount and lend money and make advances upon the security of, and take as collateral security for any loan made by it, bills of exchange, promissory notes, and other negotiable securities, or the stock, bonds, debentures, and obligations of municipal and other corporations, whether secured by mortgage or otherwise, or Dominion, provincial, British, foreign and other public securities; and, (*d*) engage in and carry on such business generally as appertains to the business of banking.

2. Except as authorized by this act, the bank shall not, either directly or indirectly, (*a*) deal in the buying or selling, or bartering of goods, wares, and merchandise, or engage or be engaged in any trade or business whatsoever; (*b*) purchase, or deal in, or lend money, or make advances upon the security or pledge of any share of its own capital stock, or of the capital stock of any bank; or, (*c*) lend money or make advances upon the security, mortgage or hypothecation of any lands, tenements, or immovable property, or of any ships or other vessels, or upon the security of any goods, wares, and merchandise. (53 V., c. 31, s. 64.)

77. The bank shall have a privileged lien, for any debt or liability for any debt to the bank, on the shares of its own capital stock, and on any unpaid dividends of the debtor or person liable, and may decline to allow any transfer of the shares of such debtor or person until the debt is paid.

2. The bank shall, within twelve months after the debt has accrued and become payable, sell such shares: *Provided*, That notice shall be given to the holder of the shares of the intention of the bank to sell the same, by mailing the notice, in the post office, post paid, to the last known address of the holder, at least thirty days prior to the sale.

3. Upon the sale being made the president, vice-president, manager or cashier shall execute a transfer of the shares to the purchaser thereof in the usual transfer book of the bank.

4. Such transfers shall vest in the purchaser all the rights in or to the said shares which were possessed by the holder thereof, with the same obligation of warranty on his part as if he were the vendor thereof, but without any warranty from the bank or by the officer of the bank executing the transfer. (53 V., c. 31, s. 65.)

78. The stock, bonds, debentures or securities, acquired and held by the bank as collateral security, may, in case of default in the payment of the debt, for the securing of which they were so acquired and held, be dealt with, sold and conveyed, either in like manner and subject to the same restrictions as are herein provided in respect of stock of the bank on which it has acquired a lien under this act, or in like manner as and subject to the restrictions under which a private individual might in like circumstances deal with, sell and convey the same: *Provided*, That the bank shall not be obliged to sell within twelve months.

2. The right so to deal with and dispose of such stock, bonds, debentures or securities in manner aforesaid may be waived or varied by any agreement between the bank

and the owner of the stock, bonds, debentures or securities, made at the time at which such debt was incurred, or, if the time of payment of the debt has been extended, then by an agreement made at the time of the extension. (53 V., c. 31, s. 66.)

79. The bank may acquire and hold real and immovable property for its actual use and occupation and the management of its business, and may sell or dispose of the same and acquire other property in its stead for the same purpose. (53 V., c. 31, s. 67.)

80. The bank may take, hold and dispose of mortgages and hypothèques upon real or personal, immovable or movable property, by way of additional security for debts contracted to the bank in the course of its business.

2. The rights, powers, and privileges which the bank is by this act declared to have, or to have had, in respect of real or immovable property mortgaged to it, shall be held and possessed by it in respect of any personal or movable property which is mortgaged or hypothecated to the bank. (53 V., c. 31, s. 68.)

81. The bank may purchase any lands or real or immovable property offered for sale (*a*) under execution, or in insolvency, or under the order or decree of a court, as belonging to any debtor to the bank; or (*b*) by a mortgagee or other encumbrancer, having priority over a mortgage or other encumbrance held by the bank; or (*c*) by the bank under a power of sale given to it for that purpose; in cases in which, under similar circumstances, an individual could so purchase, without any restriction as to the value of the property which it may so purchase, and may acquire a title thereto as any individual, purchasing at sheriff's sale, or under a power of sale, in like circumstances could do, and may take, have, hold, and dispose of the same at pleasure. (53 V., c. 31, s. 69.)

82. The bank may acquire and hold an absolute title in or to real or immovable property mortgaged to it as secur-

ity for a debt due or owing to it, either by the obtaining of a release of the equity of redemption in the mortgaged property, or by procuring a foreclosure, or by other means whereby, as between individuals, an equity of redemption can, by law, be barred, and may purchase and acquire any prior mortgage or charge on such property.

2. Nothing in any charter, act or law shall be construed as ever having been intended to prevent or as preventing the bank from acquiring and holding an absolute title to and in any such mortgaged real or immovable property, whatever the value thereof, or from exercising or acting upon any power of sale contained in any mortgage given to or held by the bank, authorizing or enabling it to sell or convey away any property so mortgaged. (53 V., c. 31, s. 71; 63–64 V., c. 26, s. 14.)

83. No bank shall hold any real or immovable property, howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the date of the acquisition thereof, or any extension of such period as in this secton provided, and such property shall be absolutely sold or disposed of, within such period or extended period, as the case may be, so that the bank shall no longer retain any interest therein unless by way of security.

2. The treasury board may direct that the time for the sale or disposal of any such real or immovable property shall be extended for a further period or periods, not to exceed five years.

3. The whole period during which the bank may so hold such property under the foregoing provisions of this section shall not exceed twelve years from the date of the acquisition thereof.

4. Any real or immovable property, not required by the bank for its own use, held by the bank for a longer period than authorized by the foregoing provisions of this section shall be liable to be forfeited to His Majesty

for the use of the Dominion of Canada: *Provided*, That (*a*) no such forfeiture shall take effect until the expiration of at least six calendar months after notice in writing to the bank by the minister of the intention of His Majesty to claim the forfeiture; and, (*b*) the bank may, notwithstanding such notice, before the forfeiture is effected sell or dispose of the property free from liability to forfeiture.

5. The provisions of this section shall apply to any real or immovable property heretofore acquired by the bank and held by it at the time of the coming into force of this act. (63–64 V., c. 26, s. 14.)

84. The bank may lend money upon the security of standing timber, and the rights or licenses held by persons to cut or remove such timber. (63–64 V., c. 26, s. 16.)

85. Every bank advancing money in aid of the building of any ship or vessel shall have the same right of acquiring and holding security upon such ship or vessel, while building and when completed, either by way of mortgage, hypothèque, hypothecation, privilege or lien thereon, or purchase or transfer thereof, as individuals have in the province wherein the ship or vessel is being built.

2. The bank may, for the purpose of obtaining and enforcing such security, avail itself of all such rights and means, and shall be subject to all such obligations, limitations, and conditions, as are, by the law of such province, conferred or imposed upon individuals making such advances. (53 V., c. 31, s. 72.)

86. The bank may acquire and hold any warehouse receipt or bill of lading as collateral security for the payment of any debt incurred in its favour, or as security for any liability incurred by it for any person, in the course of its banking business.

2. Any warehouse receipt or bill of lading so acquired shall vest in the bank, from the date of the acquisition thereof, (*a*) all the right and title to such warehouse

receipt or bill of lading and to the goods covered thereby of the previous holder or owner thereof; or, (*b*) all the right and title to the goods, wares, and merchandise mentioned therein of the person from whom the same were received or acquired by the bank, if the warehouse receipt or bill of lading is made directly in favour of the bank, instead of to the previous holder or owner of such goods, wares and merchandise. (53 V., c. 31, s. 73; 63–64 V., c. 26, s. 15.)

87. If the previous holder of such warehouse receipt or bill of lading is any person, (*a*) entrusted with the possession of the goods, wares and merchandise mentioned therein, by or by the authority of the owner thereof; or, (*b*) to whom such goods, wares and merchandise are, by or by the authority of the owner thereof, consigned; or, (*c*) who, by or by the authority of the owner of such goods, wares and merchandise, is possessed of any bill of lading, receipt, order or other document covering the same, such as is used in the course of business as proof of the possession or control of goods, wares and merchandise, or as authorizing or purporting to authorize, either by endorsement or by delivery, the possessor of such a document to transfer or receive the goods, wares and merchandise thereby represented; the bank shall be, upon the acquisition of such warehouse receipt or bill of lading, vested with all the right and title of the owner of such goods, wares and merchandise, subject to the right of the owner to have the same retransferred to him if the debt or liability, as security for which such warehouse receipt or bill of lading is held by the bank, is paid.

2. Any person shall be deemed to be the possessor of such goods, wares and merchandise, bill of lading, receipt, order or other document as aforesaid, (*a*) who is in actual possession thereof; or, (*b*) for whom, or subject to whose control, the same are held by any person. (53 V., c. 31, s. 73; 63–64 V., c. 26, s. 15.)

88. The bank may lend money to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of or dealer in live stock or dead stock and the products thereof, upon the security of such products, or of such live stock or dead stock and the products thereof.

2. The bank may allow the goods, wares and merchandise covered by such security to be removed and other goods, wares and merchandise, such as mentioned in the last preceding subsection, to be substituted therefor, if the goods, wares and merchandise so substituted are of substantially the same character, and of substantially the same value as, or of less value than, those for which they have been so substituted; and the goods, wares and merchandise so substituted shall be covered by such security as if originally covered thereby.

3. The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares and merchandise, upon the security of the goods, wares and merchandise manufactured by him, or procured for such manufacture.

4. Any such security, as mentioned in the foregoing provisions of this section, may be given by the owner of said goods, wares and merchandise, stock or products.

5. The security may be taken in the form set forth in Schedule C to this act, or to the like effect.

6. The bank shall, by virtue of such security, acquire the same rights and powers in respect to the goods, wares and merchandise, stock or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt. (53 V., c. 31, s. 74; 63–64 V., c. 26, s. 17.)

89. If goods, wares and merchandise are manufactured or produced from the goods, wares and merchandise, or any of them, included in or covered by any warehouse receipt, or included in or covered by any security given under the

last preceding section, while so covered, the bank holding such warehouse receipt or security shall hold or continue to hold such goods, wares and merchandise, during the process and after the completion of such manufacture or production, with the same right and title, and for the same purposes and upon the same conditions, as it held or could have held the original goods, wares and merchandise.

2. All advances made on the security of any bill of lading or warehouse receipt, or of any security given under the last preceding section, shall give to the bank making the advances a claim for the repayment of the advances on the goods, wares and merchandise therein mentioned, or into which they have been converted, prior to and by preference over the claim of any unpaid vendor: *Provided*, That such preference shall not be given over the claim of any unpaid vendor who had a lien upon the goods, wares and merchandise at the time of the acquisition by the bank of such warehouse receipt, bill of lading, or security, unless the same was acquired without knowledge on the part of the bank of such lien.

3. In the event of the non-payment at maturity of any debt or liability secured by a warehouse receipt or bill of lading, or secured by any security given under the last preceding section, the bank may sell the goods, wares and merchandise mentioned therein, or so much thereof as will suffice to pay such debt or liability with interest and expenses, returning the surplus, if any, to the person from whom the warehouse receipt, bill of lading, or security, or the goods, wares and merchandise mentioned therein, as the case may be, were acquired: *Provided*, That such power of sale shall be exercised subject to the following provisions, namely: (*a*) No sale, without the consent in writing of the owner of any timber, boards, deals, staves, saw-logs or other lumber, shall be made under this act until notice of the time and place of such sale has been given by a regis-

tered letter, mailed in the post office, post paid, to the last known address of the pledger thereof, at least thirty days prior to the sale thereof; (*b*) no goods, wares and merchandise, other than timber, boards, deals, staves, saw-logs or other lumber, shall be sold by the bank under this act without the consent of the owner until notice of the time and place of sale has been given by a registered letter, mailed in the post-office, post paid, to the last known address of the pledger thereof, at least ten days prior to the sale thereof; (*c*) every sale under such power of sale without the consent of the owner shall be made by public auction, after notice thereof by advertisement in at least two newspapers published in or nearest to the place where the sale is to be made, stating the time and place thereof; and, if the sale is in the province of Quebec, then at least one of such newspapers shall be a newspaper published in the English language, and one other such newspaper shall be a newspaper published in the French language. (53 V., c. 31, ss. 76, 77 and 78; 63–64 V., c. 26, s. 19.)

90. The bank shall not acquire or hold any warehouse receipt or bill of lading, or any such security as aforesaid, to secure the payment of any bill, note, debt, or liability, unless such bill, note, debt, or liability is negotiated or contracted (*a*) at the time of the acquisition thereof by the bank, or (*b*) upon the written promise or agreement that such warehouse receipt or bill of lading or security would be given to the bank: *Provided*, That such bill, note, debt, or liability may be renewed, or the time for the payment thereof extended, without affecting any such security.

2. The bank may (*a*) on shipment of any goods, wares and merchandise for which it holds a warehouse receipt, or any such security as aforesaid, surrender such receipt or security and receive a bill of lading in exchange therefor or (*b*) on the receipt of any goods, wares and merchandise for which it holds a bill of lading, or any such security as aforesaid, surrender such bill of lading or secu-

rity, store the goods, wares and merchandise, and take a warehouse receipt therefor, or ship the goods, wares and merchandise, or part of them, and take another bill of lading therefor. (53 V., c. 31, s. 75; 63–64 V., c. 26, s. 18.)

91. The bank may stipulate for, take, reserve or exact any rate of interest or discount, not exceeding seven per centum per annum, and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank. (53 V., c. 31, s. 80.)

92. The bank may allow any rate of interest whatever upon money deposited with it. (53 V., c. 31, s. 80.)

93. When any note, bill, or other negotiable security or paper, payable at any of the bank's places or seats of business, branches, agencies or offices of discount and deposit in Canada, is discounted at any other of the bank's places or seats of business, branches, agencies or offices of discount and deposit, the bank may, in order to defray the expenses attending the collection thereof, receive or retain, in addition to the discount thereon, a percentage calculated upon the amount of such note, bill, or other negotiable security or paper, not exceeding, if the note, bill, or other negotiable security or paper is to run (*a*) for less than thirty days, one-eighth of one per centum; (*b*) for thirty days or over but less than sixty days, one-fourth of one per centum; (*c*) for sixty days or over but less than ninety days, three-eighths of one per centum; and (*d*) for ninety days or over, one-half of one per centum. (53 V., c. 31, s. 82.)

94. The bank may, in discounting any note, bill, or other negotiable security or paper, bona fide payable at any place in Canada other than that at which it is discounted, and other than one of its own places or seats of business, branches, agencies, or offices of discount and deposit in Canada, receive and retain, in addition to the discount thereon, a sum not exceeding one-half of one per centum on the amount thereof to defray the expenses

of agency and charges in collecting the same. (53 V., c. 31, s. 83.)

95. The bank may, subject to the provisions of this section, without the authority, aid, assistance, or intervention of any other person or official being required (*a*) receive deposits from any person whomsoever, whatever his age, status, or condition in life, and whether such person is qualified by law to enter into ordinary contracts or not, and (*b*) from time to time repay any or all of the principal thereof, and pay the whole or any part of the interest thereon to such person, unless before such repayment the money so deposited in the bank is lawfully claimed as the property of some other person.

2. In the case of any such lawful claim the money so deposited may be paid to the depositor with the consent of the claimant, or to the claimant with the consent of the depositor.

3. If the person making any such deposit could not, under the law of the province where the deposit is made, deposit and withdraw money in and from a bank without this section, the total amount to be received from such person on deposit shall not at any time exceed the sum of five hundred dollars. (53 V., c. 31, s. 84.)

96. The bank shall not be bound to see to the execution of any trust, whether expressed, implied, or constructive, to which any deposit made under the authority of this act is subject.

2. Except only in the case of a lawful claim, by some other person before repayment, the receipt of the person in whose name any such deposit stands, or, if it stands in the names of two persons, the receipt of one, or, if it stands in the names of more than two persons, the receipt of a majority of such persons, shall, notwithstanding any trust to which such deposit is then subject, and whether or not the bank sought to be charged with such trust, and with which the deposit has been made, had notice thereof,

be a sufficient discharge to all concerned for the payment of any money payable in respect of such deposit.

3. The bank shall not be bound to see to the application of the money paid upon such receipt. (53 V., c. 31, s. 84.)

97. If a person dies, having a deposit with the bank not exceeding the sum of five hundred dollars, the production to the bank and deposit with it of (*a*) any authenticated copy of the probate of the will of the deceased depositor, or of letters of administration of his estate, or of letters of verification of heirship, or of the act of curatorship or tutorship, granted by any court in Canada having power to grant the same, or by any court or authority in England, Wales, Ireland, or any British colony, or of any testament, testamentary or testament dative expede in Scotland; or, (*b*) an authentic notarial copy of the will of the deceased depositor, if such will is in notarial form, according to the law of the Province of Quebec; or, (*c*) if the deceased depositor died out of His Majesty's dominions, any authenticated copy of the probate of his will, or letters of administration of his property, or other document of like import, granted by any court or authority having the requisite power in such matters, shall be sufficient justification and authority to the directors for paying such deposit, in pursuance of and in conformity to such probate, letters of administration, or other document as aforesaid. (63–64 V., c. 26, s. 20.)

DOMINION GOVERNMENT CHEQUES.

98. The bank shall not charge any discount or commission for the cashing of any official cheque of the government of Canada or of any department thereof, whether drawn on the bank cashing the cheque or on any other bank. (53 V., c. 31, s. 103.)

THE PURCHASE OF THE ASSETS OF A BANK.

99. Any bank may sell the whole or any portion of its assets to any other bank which may purchase such assets; and the selling and purchasing banks may, for such purposes, enter into an agreement of sale and purchase, which agreement shall contain all the terms and conditions connected with the sale and purchase of such assets. (63–64 V., c. 26, s. 33.)

100. The consideration for any such sale and purchase may be as agreed upon between the selling and purchasing banks.

2. If the consideration, or any portion thereof, is shares of the capital stock of the purchasing bank, the agreement shall provide for the amount of the shares of the purchasing bank to be paid to the selling bank.

3. Until such shares so paid to the selling bank have been sold by such bank, or have been distributed among and accepted by the shareholders of such bank, they shall not be considered issued shares of the purchasing bank for the purposes of its note circulation. (63–64 V., c. 26, s. 34.)

101. The agreement of sale and purchase shall be submitted to the shareholders of the selling bank, either at the annual general meeting of such bank or at a special general meeting thereof called for the purpose.

2. A copy of the agreement shall be mailed, postpaid, to each shareholder of such bank to his last known address, at least four weeks previously to the date of the meeting at which the agreement is to be submitted, together with a notice of the time and place of the holding of such meeting. (63–64 V., c. 26, s. 35.)

102. If at such meeting the agreement is approved by resolution carried by the votes of shareholders, present in person or represented by proxy, representing not less than two-thirds of the amount of the subscribed capital

stock of the bank, the agreement may be executed under the seals of the banks, parties thereto, and application may be made to the governor in council, through the minister, for approval thereof.

2. Until the agreement is approved by the governor in council it shall not be of any force or effect. (63–64 V., c. 26, s. 36.)

103. If the agreement provides for the payment of the consideration for such sale and purchase, in whole or in part, in shares of the capital stock of the purchasing bank, and for such purpose it is necessary to increase the capital stock of such bank, the agreement shall not be executed on behalf of the purchasing bank, unless nor until it is approved by the shareholders thereof at the annual general meeting, or at a special general meeting of such shareholders. (63–64 V., c. 26, s. 37.)

104. The governor in council may, on the application for his approval of the agreement, approve of the increase of the capital stock of the purchasing bank, which is necessary to provide for the payment of the shares of such bank to the selling bank, as provided in the said agreement. (63–64 V., c. 26, s. 38.)

105. The provisions of this act with regard to (*a*) the increase of the capital stock of the bank by by-law of the shareholders approved by the treasury board; and (*b*) the allotment and sale of such increased stock shall not apply to any increase of stock made or provided for under the authority of the last two preceding sections. (63–64 V., c. 26, s. 38.)

106. The approval of the governor in council shall not be given to the agreement unless (*a*) the approval thereof is recommended by the treasury board; (*b*) the application for approval thereof is made, by or on behalf of the bank executing it, within three months from the date of execution of the agreement; and (*c*) it appears to the satisfaction of the governor in council that all the require-

ments of this act in connection with the approval of the agreement by the shareholders of the selling and purchasing banks have been complied with, and that notice of the intention of the banks to apply to the governor in council for the approval of the agreement has been published for at least four weeks in the Canada Gazette, and in one or more newspapers published in places where the chief offices or places of business of the banks are situate.

2. Such banks shall afford all information that the minister requires.

3. Nothing herein contained shall be construed to prevent the governor in council or the treasury board from refusing to approve of the agreement or to recommend its approval. (63–64 V., c. 26, s. 39.)

107. The agreement shall not be approved of unless it appears that (*a*) proper provisions have been made for the payment of the liabilities of the selling bank; (*b*) the agreement provides for the assumption and payment by the purchasing bank of the notes of the selling bank issued and intended for circulation, outstanding and in circulation; and, (*c*) the amounts of the notes of both the purchasing and selling banks, issued for circulation, outstanding and in circulation, as shown by the then last monthly returns of the banks, do not together exceed the then paid-up capital of the purchasing bank; or, if the amount of such notes does exceed such paid-up capital, an amount in cash, equal to the excess of such notes over such paid-up capital, has been deposited by the purchasing bank with the minister.

2. The amount so deposited as aforesaid shall be held by the minister as security for the redemption of the said excess of notes; and, when such excess, or any portion thereof, has been redeemed and cancelled, the amount so deposited, or an amount equal to the amount of excess so redeemed and cancelled, shall, from time to time, be repaid by the minister to the purchasing bank, but with-

out interest, on the application of such bank, and on the production of such evidence as the minister may require to show that the notes in regard to which such repayment is asked have been redeemed and cancelled. (63–64 V., c. 27, s. 1.)

108. The notes of the selling bank so assumed and to be paid by the purchasing bank shall, on the approval of the agreement, be deemed to be, for all intents and purposes, notes of the purchasing bank issued for circulation; and the purchasing bank shall be liable in the same manner and to the same extent as if it had issued them for circulation.

2. The amount at the credit of the selling bank in the circulation fund shall, on the approval of the agreement, be transferred to the credit of the purchasing bank.

3. The notes of the selling bank shall not be reissued, but shall be called in, redeemed, and cancelled as quickly as possible. (63–64 V., c. 26, s. 41.)

109. The approval by the governor in council of the agreement shall be evidenced by a certified copy of the order in council approving thereof.

2. Such certified copy shall be conclusive evidence of the approval of the agreement therein referred to, and of the regularity of all proceedings in connection therewith. (63–64 V., c. 26, s. 42.)

110. On the agreement being approved of by the governor in council, the assets therein referred to as sold and purchased shall, in accordance with and subject to the terms thereof, and without any further conveyance, become vested in the purchasing bank.

2. The selling bank shall, from time to time, subject to the terms of the agreement, execute such formal and separate conveyances, assignments, and assurances, for registration purposes or otherwise, as are reasonably required to confirm or evidence the vesting in the pur-

chasing bank of the full title or ownership of the assets referred to in the agreement (63–64 V., c. 26, s. 43.)

111. As soon as the agreement is approved of by the governor in council, the selling bank shall cease to issue or reissue notes for circulation, and shall cease to transact any business, except such as is necessary to enable it to carry out the agreement, to realize upon any assets not included in the agreement, to pay and discharge its liabilities, and generally to wind up its business; and the charter or act of incorporation of such bank, and any acts in amendment thereof then in force, shall continue in force only for the purposes in this section specified. (63–64 V., c. 26, s. 44.)

RETURNS.

112. Monthly returns shall be made by the bank to the minister in the form set forth in Schedule D to this act.

2. Such returns shall be made up and sent in within the first fifteen days of each month, and shall exhibit the condition of the bank on the last juridical day of the month last preceding.

3. Such returns shall be signed by the chief accountant and by the president, or vice-president, or the director then acting as president, and by the manager, cashier, or other principal officer of the bank at its chief place of business. (53 V., c. 31, s. 85.)

113. The minister may also call for special returns from any bank, whenever, in his judgment, they are necessary to afford a full and complete knowledge of its condition.

2. Such special returns shall be made and signed in the manner and by the persons specified in the last preceding section.

3. Such special returns shall be made and sent in within thirty days from the date of the demand therefor by the minister: *Provided*, That the minister may extend the time for sending in such special returns for such further

period, not exceeding thirty days, as he thinks expedient. (53 V., c. 31, s. 86.)

114. The bank shall, within twenty days after the close of each calendar year, transmit or deliver to the minister a return (*a*) of all dividends which have remained unpaid for more than five years; and (*b*) of all amounts or balances in respect of which no transactions have taken place, or upon which no interest has been paid, during the five years prior to the date of such return: *Provided*, That, in the case of moneys deposited for a fixed period, the said term of five years shall be reckoned from the date of the termination of such fixed period.

2. The return mentioned in the last preceding subsection shall set forth (*a*) the name of each shareholder or creditor to whom such dividends, amounts, or balances are, according to the books of the bank, payable; (*b*) the last known address of each such shareholder or creditor; (*c*) the amount due to each such shareholder or creditor; (*d*) the agency of the bank at which the last transaction took place; (*e*) the date of such last transaction; and, (*f*) if such shareholder or creditor is known to the bank to be dead, the names and addresses of his legal representatives, so far as known to the bank.

3. The bank shall likewise, within twenty days after the close of each calendar year, transmit or deliver to the minister a return of all drafts or bills of exchange issued by the bank to any person and remaining unpaid for more than five years prior to the date of such return, setting forth, so far as known, (*a*) the names of the persons to whom or at whose request such drafts or bills of exchange were issued; (*b*) the addresses of such persons; (*c*) the names of the payees of such drafts or bills of exchange; (*d*) the amounts and dates of such drafts or bills of exchange; (*e*) the names of the places where such drafts or bills of exchange were payable; and (*f*) the agencies of the

bank, respectively, from which such drafts or bills of exchange were issued.

4. The returns required by the foregoing provisions of this section shall be signed by the chief accountant, and by the president or vice-president or the director then acting as president, and by the manager, cashier, or other principal officer of the bank, at its chief place of business.

5. The bank shall also, within twenty days after the close of each calendar year, transmit or deliver to the minister a certified list showing (*a*) the names of the shareholders of the bank on the last day of such calendar year, with their additions and residences; (*b*) the number of shares then held by them, respectively; and (*c*) the value at par of such shares.

6. The minister shall lay such returns and lists before Parliament at the next session thereof. (53 V., c. 31, ss. 87 and 88; 63-64 V., c. 26, s. 21.)

PAYMENTS TO THE MINISTER UPON WINDING UP.

115. If, in the event of the winding up of the business of the bank in insolvency, or under any general winding-up act, or otherwise, any moneys payable by the liquidator, either to shareholders or depositors, remain unclaimed (*a*) for the period of three years from the date of suspension of payment by the bank; or (*b*) for a like period from the commencement of the winding up of such business; or (*c*) until the final winding up of such business, if the business is finally wound up before the expiration of the said three years; such moneys and all interest thereon shall, notwithstanding any statute of limitations or other act relating to prescription, be paid to the minister, to be held by him subject to all rightful claims on behalf of any person other than the bank.

2. If a claim to any moneys so paid is thereafter established to the satisfaction of the treasury board, the governor in council shall, on the report of the treasury board,

direct payment thereof to be made to the person entitled thereto, together with interest on the principal sum thereof, at the rate of three per centum per annum, for a period not exceeding six years from the date of payment thereof to the minister as aforesaid: *Provided*, That no such interest shall be paid or payable on such principal sum unless interest thereon was payable by the bank paying the same to the minister.

3. Upon payment to the minister as herein provided, the bank and its assets shall be held to be discharged from further liability for the amounts so paid. (53 V., c. 31, s. 88.)

116. Upon the winding up of a bank in insolvency or under any general winding-up act, or otherwise, the assignees, liquidators, directors, or other officials in charge of such winding up, shall, before the final distribution of the assets, or within three years from the commencement of the suspension of payment by the bank, whichever shall first happen, pay over to the minister a sum, out of the assets of the bank, equal to the amount then outstanding of the notes intended for circulation issued by the bank.

2. Upon such payment being made, the bank and its assets shall be relieved from all further liability in respect of such outstanding notes.

3. The sum so paid shall be held by the minister and applied for the purpose of redeeming, whenever presented, such outstanding notes, without interest. (53 V., c. 31, s. 88.)

THE CURATOR.

117. The association shall, if a bank suspends payment in specie or Dominion notes of any of its liabilities as they accrue, forthwith appoint a curator to supervise the affairs of such bank.

2. The association may at any time remove the curator, and may appoint another person to act in his stead. (63–64 V., c. 26, s. 24.)

118. The appointment of the curator shall be made in the manner provided for in the by-law of the association made in that behalf as hereinafter provided.

2. If there is no such by-law the appointment shall be made in writing by the president of the association, or by the person acting as president. (63–64 V., c. 26, s. 25.)

119. The curator shall assume supervision of the affairs of the bank, and of all necessary arrangements for the payment of the notes of the bank issued for circulation, and, at the time of his appointment, outstanding and in circulation.

2. The curator shall generally have all powers and shall take all steps and do all things necessary or expedient to protect the rights and interests of the creditors and shareholders of the bank, and to conserve and ensure the proper disposition, according to law, of the assets of the bank; and, for the purposes of this section, he shall have free and full access to all books, accounts, documents, and papers of the bank.

3. The curator shall continue to supervise the affairs of the bank until he is removed from office, or until the bank resumes business, or until a liquidator is duly appointed to wind up the business of the bank. (63–64 V., c. 26, s. 26.)

120. The president, vice-president, directors, general manager, managers, clerks, and officers of the bank shall give and afford to the curator all such information and assistance as he requires in the discharge of his duties. (63–64 V., c. 26, s. 27.)

121. No by-law, regulation, resolution, or act, touching the affairs or management of the bank, passed, made, or done by the directors during the time the curator is in charge of the bank, shall be of any force or effect until

approved in writing by the curator. (63–64 V., c. 26, s. 27.)

122. The curator shall make all returns and reports, and shall give all information to the minister, touching the affairs of the bank, that the minister requires of him. (63–64 V., c. 26, s. 28.)

123. The remuneration of the curator for his services, and his expenses and disbursements in connection with the discharge of his duties, shall be fixed and determined by the association, and shall be paid out of the assets of the bank, and, in case of the winding up of the bank, shall rank on the estate equally with the remuneration of the liquidator. (63–64 V., c. 26, s. 29.)

BY-LAWS OF THE CANADIAN BANKERS' ASSOCIATION.

124. The association may, at any meeting thereof, with the approval of two-thirds in number of the banks represented at such meeting, if the banks so approving have at least two-thirds in par value of the paid-up capital of the banks so represented, make by-laws, rules and regulations respecting, (*a*) all matters relating to the appointment or removal of the curator, and his powers and duties; (*b*) the supervision of the making of the notes of the banks which are intended for circulation, and the delivery thereof to the banks; (*c*) the inspection of the disposition made by the banks of such notes; (*d*) the destruction of notes of the banks; and (*e*) the imposition of penalties for the breach or nonobservance of any by-law, rule or regulation made by virtue of this section.

2. No such by-law, rule or regulation, and no amendment or repeal thereof, shall be of any force or effect until approved by the treasury board.

3. Before any such by-law, rule or regulation, or any amendment or repeal thereof is so approved, the treasury board shall submit it to every bank which is not a member of the association, and give to each such bank an oppor-

tunity of being heard before the treasury board with respect thereto.

4. The association shall have all powers necessary to carry out, or to enforce the carrying out, of any by-law, rule or regulation, or any amendment thereof, so approved by the treasury board. (63-64 V., c. 26, ss. 30 and 31.)

INSOLVENCY.

125. In the event of the property and assets of the bank being insufficient to pay its debts and liabilities, each shareholder of the bank shall be liable for the deficiency, to an amount equal to the par value of the shares held by him, in addition to any amount not paid up on such shares. (53 V., c. 31, s. 89.)

126. The liability of the bank, under any law, custom or agreement to repay moneys deposited with it and interest, if any, and to pay dividends declared and payable on its capital stock, shall continue, notwithstanding any statute of limitations, or any enactment or law relating to prescription.

2. This section applies to moneys heretofore or hereafter deposited, and to dividends heretofore or hereafter declared. (53 V., c. 31, s. 90.)

127. Any suspension by the bank of payment of any of its liabilities as they accrue, in specie or Dominion notes, shall, if it continues for ninety days consecutively, or at intervals within twelve consecutive months, constitute the bank insolvent, and work a forfeiture of its charter or act of incorporation, so far as regards all further banking operations.

2. The charter or act of incorporation of the bank shall, in such case, remain in force only for the purpose of enabling the directors, or other lawful authority, to make and enforce the calls mentioned in the next following section of this act, and to wind up the business of the bank. (53 V., c. 31, s. 91.)

128. If any suspension of payment in full, in specie or Dominion notes, of all or any of the notes or other liabilities of the bank, continues for three months after the expiration of the time which, under the last preceding section, would constitute the bank insolvent, and if no proceedings are taken under any act for the winding up of the bank, the directors shall make calls on the shareholders thereof, to the amount they deem necessary to pay all the debts and liabilities of the bank, without waiting for the collection of any debts due to the bank or the sale of any of its assets or property.

2. Such calls shall be made at intervals of thirty days.

3. Such calls shall be made upon notice to be given at least thirty days prior to the day on which any such call shall be payable.

4. Any number of such calls may be made by one resolution.

5. No such call shall exceed twenty per centum on each share.

6. Payment of such calls may be enforced in like manner as payment of calls on unpaid stock may be enforced.

7. The first of such calls may be made within ten days after the expiration of the said three months.

8. In the event of proceedings being taken, under any act, for the winding up of the bank in consequence of the insolvency of the bank, the said calls shall be made in the manner prescribed for the making of such calls in such act.

9. Any failure on the part of any shareholder liable to any such call to pay the same when due, shall work a forfeiture by such shareholder of all claim in or to any part of the assets of the bank: *Provided*, That such call, and any further call thereafter, shall nevertheless be recoverable from him as if no such forfeiture had been incurred. (53 V., c. 31, ss. 92, 93, and 94.)

129. Nothing contained in the four sections last preceding shall be construed to alter or diminish the additional liabilities of the directors as herein mentioned and declared. (53 V., c. 31, s. 95.)

130. (*a*) Persons who, having been shareholders of the bank, have only transferred their shares, or any of them, to others, or registered the transfer thereof, within sixty days before the commencement of the suspension of payment by the bank; and, (*b*) Persons whose subscriptions to the stock of the bank have been cancelled, in manner hereinbefore provided, within the said period of sixty days before the commencement of the suspension of payment by the bank; shall be liable to all calls on the shares held or subscribed for by them, as if they held such shares at the time of such suspension of payment, saving their recourse against those by whom such shares were then actually held. (53 V., c. 31, s. 96.)

131. In the case of the insolvency of any bank, (*a*) the payment of the notes issued or re-issued by such bank, intended for circulation, and then in circulation, together with any interest paid or payable thereon as hereinbefore provided, shall be the first charge upon the assets of the bank; (*b*) the payment of any amount due to the government of Canada, intrust or otherwise, shall be the second charge upon such assets; (*c*) the payment of any amount due to the government of any of the provinces, in trust or otherwise, shall be the third charge upon such assets; and, (*d*) the amount of any penalties for which the bank is liable shall not form a charge upon the assets of the bank, until all other liabilities are paid. (53 V., c. 31, s. 53.)

OFFENCES AND PENALTIES.

The commencement of business.

132. Every director or provisional director of any bank and every other person, who, before the obtaining of the certificate from the treasury board, by this act required,

permitting the bank to issue notes or commence business, issues or authorizes the issue of any note of such bank, or transacts or authorizes the transaction of any business in connection with such bank, except such as is by this act authorized to be transacted before the obtaining of such certificate, is guilty of an offence against this act. (53 V., c. 31, s. 14.)

The sale and transfer of shares.

133. Any person, whether principal, broker or agent, who wilfully sells or transfers or attempts to sell or transfer (*a*) any share or shares of the capital stock of any bank by a false number; or, (*b*) any share or shares of which the person making such sale or transfer, or in whose name or on whose behalf the same is made, is not at the time of such sale, or attempted sale, the registered owner; or, (*c*) any share or shares, without the assent to such sale of the registered owner thereof; is guilty of an offence against this act. (53 V., c. 31, s. 37.)

The cash reserves.

134. Every bank which at any time holds less than forty per centum of its cash reserves in Dominion notes shall incur a penalty of five hundred dollars for each such offence. (53 V., c. 31, s. 50.)

The issue and circulation of notes.

135. If the total amount of the notes of the bank in circulation at any time exceeds the amount authorized by this act the bank shall, (*a*) if the amount of such excess is not over one thousand dollars, incur a penalty equal to the amount of such excess; or, (*b*) if the amount of such excess is over one thousand dollars, and not over twenty thousand dollars, incur a penalty of one thousand dollars; or, (*c*) if the amount of such excess is over twenty thou-

sand dollars, and not over one hundred thousand dollars, incur a penalty of ten thousand dollars; or, (*d*) if the amount of such excess is over one hundred thousand dollars, and not over two hundred thousand dollars, incur a penalty of fifty thousand dollars; or, (*e*) if the amount of such excess is over two hundred thousand dollars, incur a penalty of one hundred thousand dollars. (53 V., c. 31, s. 51.)

136. Every person, except a bank to which this act applies, who issues or reissues, makes, draws, or endorses any bill, bond, note, cheque or other instrument, intended to circulate as money, or to be used as a substitute for money, for any amount whatsoever, shall incur a penalty of four hundred dollars.

2. Such penalty shall be recoverable with costs, in any court of competent jurisdiction, by any person who sues for the same.

3. A moiety of such penalty shall belong to the person suing for the same, and the other moiety to His Majesty for the public uses of Canada.

4. If any such instrument is made for the payment of a less sum than twenty dollars, and is payable either in form or in fact to the bearer thereof, or at sight, or on demand, or at less than thirty days thereafter, or is overdue, or is in any way calculated or designed for circulation, or as a substitute for money, the intention to pass the same as money shall be presumed, unless such instrument is, (*a*) a cheque on some chartered bank paid by the maker directly to his immediate creditor; or, (*b*) a promissory note, bill of exchange, bond, or other undertaking for the payment of money made or delivered by the maker thereof to his immediate creditor, and, (*c*) not designed to circulate as money or as a substitute for money. (53 V., c. 31, s. 60.)

137. Every person who in any way defaces any Dominion or provincial note, or bank note, whether by writing,

printing, drawing, or stamping thereon, or by attaching or affixing thereto, anything in the nature or form of an advertisement, shall be liable to a penalty not exceeding twenty dollars. (53 V., c. 31, s. 61.)

138. (*a*) Every person who, being president, vice-president, director, general manager, manager, clerk, or other officer of the bank, issues or reissues, during any period of suspension of payment by the bank of its liabilities, any notes of the bank payable to bearer on demand, and intended for circulation, or authorizes or is concerned in any such issue or reissue; and (*b*) if, after any such suspension, the bank resumes business without the consent in writing of the curator, hereinbefore provided for, every person who being president, vice-president, director, general manager, manager, clerk, or other officer of the bank issues or reissues, or authorizes or is concerned in the issue or reissue of any such notes before being thereunto authorized by the treasury board; and (*c*) every person who accepts, receives, or takes, or authorizes or is concerned in, the acceptance, receipt, or taking of any such notes, knowing the same to have been so issued or reissued, from the bank, or from such president, vice-president, director, general manager, manager, clerk, or other officer of the bank, in payment or part payment, or as security for the payment of any amount due or owing to such person by the bank, is guilty of an indictable offence, and liable to imprisonment for a term not exceeding seven years, or to a fine not exceeding two thousand dollars, or to both. (63–64 V., c. 26, s. 10.)

139. (*a*) Every person who, being the president, vice-president, director, general manager, manager, cashier, or other officer of the bank, pledges, assigns, or hypothecates, or authorizes or is concerned in the pledge, assignment, or hypothecation of the notes of the bank; and (*b*) every person who accepts, receives or takes, or authorizes, or is concerned in the acceptance or receipt or taking of such notes

as a pledge, assignment, or hypothecation, shall be liable to a fine of not less than four hundred dollars and not more than two thousand dollars, or to imprisonment for not more than two years, or to both. (53 V., c. 31, s. 52.)

140. (*a*) Every person who, being the president, vice-president, director, general manager, manager, cashier, or other officer of a bank, with intent to defraud, issues or delivers, or authorizes or is concerned in the issue or delivery of notes of the bank intended for circulation and not then in circulation; and (*b*) every person who, with knowledge of such intent, accepts, receives, or takes, or authorizes, or is concerned in the acceptance, receipt, or taking of such notes, shall be guilty of an indictable offence and liable to imprisonment for a term not exceeding seven years, or to a fine not exceeding two thousand dollars, or to both. (53 V., c. 31, s. 52.)

Warehouse receipts, bills of lading, and other securities.

141. If any bank, to secure the payment of any bill, note, debt, or liability acquires or holds (*a*) any warehouse receipt or bill of lading; or (*b*) any instrument such as is by this act authorized to be taken by the bank to secure money lent (i) to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry and mine, or the sea, lakes, and rivers, or to any wholesale purchaser or shipper of or dealer in live or dead stock, and the products thereof, upon the security of such products, or of such live or dead stock, or the products thereof; or (ii) to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise, upon the security of the goods, wares, and merchandise manufactured by such person, or procured for such manufacture, such bank shall, unless (*a*) such bill, note, debt, or liability is negotiated or contracted at the time of the acquisition by the bank of such warehouse receipt, bill of lading, or security; or (*b*) such bill, note, debt, or liability is nego-

tiated or contracted upon the written promise or agreement that such warehouse receipt, bill of lading, or security would be given to the bank; or (*c*) the acquisition or holding by the bank of such warehouse receipt, bill of lading, or security is otherwise authorized by this act, incur a penalty not exceeding five hundred dollars. (53 V., c. 31, s. 79.)

142. If any debt or liability to the bank is secured by (*a*) any warehouse receipt or bill of lading; or (*b*) any other security such as is mentioned in the last preceding section, and is not paid at maturity, such bank shall, if it sells the goods, wares, and merchandise or products covered by such warehouse receipt, bill of lading, or security, under the power of sale conferred upon it by this act, without complying with the provisions to which the exercise of such power of sale is, by this act, made subject, incur a penalty not exceeding five hundred dollars. (53 V., c. 31, s. 79; 63–64 V., c. 26, s. 18.)

143. Every person is guilty of an indictable offence and liable to imprisonment for a term not exceeding two years who wilfully makes any false statement, (*a*) in any warehouse receipt or bill of lading given under the authority of this act to any bank; or (*b*) in any instrument given to any bank under the authority of this act, as security for any loan of money made by the bank to any wholesale purchaser or shipper of or dealer in products of agriculture, the forest, quarry, and mine, or the sea, lakes, and rivers, or to any wholesale purchaser, or shipper of or dealer in live or dead stock and the products thereof, whereby any such products or stock is assigned or transferred to the bank as security for the payment of such loan; or (*c*) in any instrument given to any bank under the authority of this act, as security for any loan of money made by the bank to any person engaged in business as a wholesale manufacturer of any goods, wares, and merchandise, whereby any of the goods, wares, and merchandise manufactured by him, or

procured for such manufacture, are transferred or assigned to the bank as security for the payment of such loan. (53 V., c. 31, s. 75.)

144. Every person who, having possession or control of any goods, wares, and merchandise covered by any warehouse receipt or bill of lading, or by any such security as in the last preceding section mentioned, and having knowledge of such receipt, bill of lading, or security, without the consent of the bank in writing, and before the advance, bill, note, debt, or liability thereby secured has been fully paid, (*a*) wilfully alienates or parts with any such goods, wares, or merchandise; or (*b*) wilfully withholds from the bank possession of any such goods, wares, and merchandise, upon demand, after default in payment of such advance, bill, note, debt, or liability, is guilty of an indictable offence and liable to imprisonment for a term not exceeding two years. (53 V., c. 31, s. 75; 63–64 V., c. 26, s. 18.)

145. (*a*) If any bank having, by virtue of the provisions of this act, a privileged lien for any debt or liability for any debt to the bank, on the shares of its own capital stock of the debtor or person liable, neglects to sell such shares within twelve months after such debt or liability has accrued and become payable; or (*b*) if any such bank sells any such shares without giving notice to the holder thereof of the intention of the bank to sell the same, by mailing such notice in the post-office, post paid, to the last known address of such holder, at least thirty days prior to such sale, such bank shall incur, for each such offence, a penalty not exceeding five hundred dollars. (53 V., c. 31, s. 79.)

Prohibited business.

146. If any bank, except as authorized by this act, either directly or indirectly, (*a*) deals in the buying or selling or bartering of goods, wares, and merchandise, or engages or is engaged in any trade or business whatsoever; or,

(*b*) purchases, deals in, or lends money or makes advances upon the security or pledge of any share of its own capital stock, or of the capital stock of any bank; or (*c*) lends money or makes advances upon the security, mortgage, or hypothecation of any lands, tenements, or immovable property, or of any ships or other vessels, or upon the security of any goods, wares, and merchandise, such bank shall incur a penalty not exceeding five hundred dollars. (53 V., c. 31, s. 79.)

Returns.

147. Every bank which neglects to make up and send to the minister, within the first fifteen days of any month, any monthly return by this act required to be made up and sent in within the said fifteen days, exhibiting the condition of the bank on the last juridical day of the month last preceding, and signed in the manner and by the persons by this act required, shall incur a penalty of fifty dollars for each and every day, after the expiration of such time, during which the bank neglects to make and send in such return. (53 V., c. 31, s. 85.)

148. Every bank which neglects to make and send to the minister, within thirty days from the date of the demand therefor by the minister, or, if such time is extended by the minister, within such extended time, not exceeding thirty days, as the minister may allow, any special return, signed in the manner and by the persons by this act required, which, under the provisions of this act, the minister may, for the purpose of affording a full and complete knowledge of the condition of the bank, call for, shall incur a penalty of five hundred dollars for each and every day during which such neglect continues. (53 V., c. 31, s. 86.)

149. Every bank which neglects to transmit or deliver to the minister, within twenty days after the close of any calendar year, a return, signed in the manner and by the persons and setting forth the particulars by this act re-

quired in that behalf, of all drafts or bills of exchange issued by the bank to any person and remaining unpaid for more than five years prior to the date of such return, shall incur a penalty of fifty dollars for each and every day during which such neglect continues. (63–64 V., c. 26, s. 21.)

150. Every bank which neglects to transmit or deliver to the minister, within twenty days after the close of any calendar year, a certified list, as by this act required, showing (*a*) the names of the shareholders of the bank on the last day of such calendar year, with their additions and residences; (*b*) the number of shares then held by such shareholders respectively; and, (*c*) the value at par of such shares, shall incur a penalty of fifty dollars for each and every day during which such neglect continues. (53 V., c. 31, s. 87.)

151. Every bank which neglects to transmit or deliver to the minister, within twenty days after the close of any calendar year, a return, signed in the manner and by the persons by this act required, of all dividends which have remained unpaid for more than five years, and also of all amounts or balances in respect of which no transactions have taken place, or upon which no interest has been paid, during the five years prior to the date of such return, and setting forth such further particulars as are by this act required in that behalf, shall incur a penalty of fifty dollars for each and every day during which such neglect continues.

2. The said term of five years shall, in case of moneys deposited for a fixed period, be reckoned from the date of the termination of such fixed period. (53 V., c. 31, s. 88.)

152. If any return or list, mentioned in either of the last five preceding sections, is transmitted by post, the date appearing, by the post-office stamp or mark upon the envelope or wrapper inclosing the return or list received

by the minister, as the date of deposit in the post-office of the place at which the chief office of the bank was situated, shall be taken prima facie, for the purpose of any of the said sections, to be the day upon which such return or list was transmitted to the minister. (53 V., c. 31, ss. 85 and 86; 63–64 V., c. 26, s. 22.)

153. The making of any wilfully false or deceptive statement in any account, statement, return, report, or other document respecting the affairs of the bank is an indictable offence punishable, unless a greater punishment is in any case by law prescribed therefor, by imprisonment for a term not exceeding five years.

2. Every president, vice-president, director, auditor, manager, cashier, or other officer of the bank, who (*a*) prepares, signs, approves, or concurs in any such account, statement, return, report, or document containing such false or deceptive statement; or, (*b*) uses the same with intent to deceive or mislead any person, shall be held to have wilfully made such false or deceptive statement, and shall further be responsible for all damages sustained by any person in consequence thereof. (53 V., c. 31, s. 99.)

Calls in the case of suspension of payment.

154. (*a*) If any suspension of payment in full, in specie or Dominion notes, of all or any of the notes or other liabilities of the bank continues for three months after the expiration of the time which, under the provisions of this act, would constitute the bank insolvent; and, (*b*) if no proceedings are taken under any act for the winding up of the bank; and, (*c*) if any director of the bank refuses to make or enforce, or to concur in the making or enforcing of any call on the shareholders of the bank, to any amount which the directors deem necessary to pay all the debts and liabilities of the bank, such director shall be guilty of an indictable offence, and liable (*a*) to imprisonment for

any term not exceeding two years; and, (*b*) personally for any damages suffered by any such default. (53 V., c. 31, s. 92.)

Undue preference to the bank's creditors.

155. Every person who, being the president, vice-president, director, manager, cashier, or other officer of the bank, wilfully gives or concurs in giving to any creditor of the bank any fraudulent, undue or unfair preference over other creditors, by giving security to such creditor, or by changing the nature of his claim, or otherwise howsoever, is guilty of an indictable offence, and liable (*a*) to imprisonment for a term not exceeding two years; and, (*b*) for all damages sustained by any person in consequence of such preference. (53 V., c. 31, s. 97.)

The using of the title "Bank," etc.

156. Every person assuming or using the title of "bank," "banking company," "banking house," "banking association," or "banking institution," without being authorized so to do by this act, or by some other act in force in that behalf, is guilty of an offence against this act. (53 V., c. 31, s. 100.)

Penalty for offence against this act.

157. Every person committing an offence, declared to be an offence against this act, shall be liable to a fine not exceeding one thousand dollars, or to imprisonment for a term not exceeding five years, or to both, in the discretion of the court before which the conviction is had. (53 V., c. 31, s. 101.)

PROCEDURE.

158. The amount of all penalties imposed upon a bank for any violation of this act shall be recoverable and enforceable, with costs, at the suit of His Majesty instituted by the attorney-general of Canada, or by the minister.

2. Such penalties shall belong to the Crown for the public uses of Canada: *Provided*, That the governor in council, on the report of the treasury board, may direct that any portion of any penalty be remitted, or paid to any person, or applied in any manner deemed best adapted to attain the objects of this act, and to secure the due administration thereof. (53 V., c. 31, s. 98.)

SCHEDULE A.

1. The Bank of Montreal.
2. The Bank of New Brunswick.
3. The Quebec Bank.
4. The Bank of Nova Scotia.
5. The St. Stephen's Bank.
6. The Bank of Toronto.
7. The Molsons Bank.
8. The Eastern Townships Bank.
9. The Union Bank of Halifax.
10. The Ontario Bank.
11. La Banque Nationale.
12. The Merchants Bank of Canada.
13. La Banque Provinciale du Canada.
14. The People's Bank of New Brunswick.
15. The Union Bank of Canada.
16. The Canadian Bank of Commerce.
17. The Royal Bank of Canada.
18. The Dominion Bank.
19. The Bank of Hamilton.
20. The Standard Bank of Canada.
21. La Banque de St. Jean.
22. La Banque d'Hochelaga.
23. La Banque de St. Hyacinthe.
24. The Bank of Ottawa.
25. The Imperial Bank of Canada.

26. The Western Bank of Canada.
27. The Traders' Bank of Canada.
28. The Sovereign Bank of Canada.
29. The Metropolitan Bank.
30. The Crown Bank of Canada.
31. The Home Bank of Canada.
32. The Northern Bank.
33. The Sterling Bank of Canada.
34. The United Empire Bank of Canada.

(63–64 V., c. 26, s. 4, and sch. A.)

SCHEDULE B.

AN ACT TO INCORPORATE THE ..... BANK.

Whereas the persons hereinafter named have, by their petition, prayed that an act be passed for the purpose of establishing a bank in ....., and it is expedient to grant the prayer of the said petition:

Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. The persons hereinafter named, together with such others as become shareholders in the corporation by this act created, are hereby constituted a corporation by the name of ....., hereinafter called the bank.

2. The capital stock of the bank shall be ..... dollars.

3. The chief office of the bank shall be at .....

4. .... shall be the provisional directors of the bank.

5. This act shall, subject to the provisions of section sixteen of the bank act, remain in force until the first day of July, in the year one thousand nine hundred and eleven.

(53 V., c. 31, sch. B.; 63–64 V., c. 26, s. 45.)

SCHEDULE C.

In consideration of an advance of ..... dollars made by the ..... Bank to A. B., for which the said bank holds the following bills or notes: (*describe the bills or notes, if any*), [*or*, in consideration of the discounting of the following bills or notes by the ..... Bank for A. B.: (*describe the bills or notes*),] the goods, wares, and merchandise mentioned below are hereby assigned to the said bank as security for the payment on or before the ..... day of ..... of the said advance, together with interest thereon at the rate of .... per centum per annum from the ..... day of ..... (*or*, of the said bills or notes, or renewals thereof, or substitutions therefor, and interest thereon, *or as the case may be*).

This security is given under the provisions of section eighty-eight of the bank act, and is subject to the provisions of the said act.

The said goods, wares and merchandise, are now owned by..... ....., and are now in the possession of ...., and are free from any mortgage, lien, or charge thereon (*or as the case may be*), and are in (*place or places where the goods are*), and are the following (*description of goods assigned*).

Dated, etc.

(*N. B.—The bills or notes and the goods, etc., may be set out in schedules annexed.*)

(63–64 V., c. 26, s. 46 and sch. C.)

SCHEDULE D.

Return of the liabilities and assets of the ..... bank on the .... day of ....., A. D.

Capital authorized ..... $
Capital subscribed .....
Capital paid up .....
Amount of rest or reserve fund .....
Rate per cent of last dividend declared ..... per cent.

LIABILITIES.

1. Notes in circulation ..... $
2. Balance due to Dominion government, after deducting advances for credits, pay-lists, etc .....
3. Balances due to provincial governments .....
4. Deposits by the public, payable on demand, in Canada .....
5. Deposits by the public, payable after notice or on a fixed day, in Canada .....
6. Deposits elsewhere than in Canada .....
7. Loans from other banks in Canada, secured, including bills rediscounted .....
8. Deposits made by and balances due to other banks in Canada .
9. Balances due to agencies of the bank, or to other banks or agencies, in the United Kingdom .....
10. Balances due to agencies of the bank, or to other banks or agencies, elsewhere than in Canada and the United Kingdom .
11. Liabilities not included under foregoing heads .....

$

ASSETS.

1. Specie ..... $
2. Dominion notes .....
3. Deposits with Dominion government for security of note circulation .....
4. Notes of and cheques on other banks .....
5. Loans to other banks in Canada, secured, including bills rediscounted .....
6. Deposits made with and balances due from other banks in Canada
7. Balances due from agencies of the bank, or from other banks or agencies, in the United Kingdom .....
8. Balances due from agencies of the bank, or from other banks or agencies, elsewhere than in Canada and the United Kingdom .
9. Dominion government and provincial government securities ...
10. Canadian municipal securities, and British, or foreign, or colonial public securities, other than Canadian .....
11. Railway and other bonds, debentures, and stocks .....
12. Call and short loans on stocks and bonds in Canada .....
13. Call and short loans elsewhere than in Canada .....
14. Current loans in Canada .....
15. Current loans elsewhere than in Canada .....
16. Loans to the government of Canada .....
17. Loans to provincial governments .....
18. Overdue debts .....
19. Real estate other than bank premises .....

20. Mortgages on real estate sold by the bank.....
21. Bank premises.....
22. Other assets not included under the foregoing heads.....

$

Aggregate amount of loans to directors, and firms of which they are partners, $.....

Average amount of specie held during the month, $.....

Average amount of Dominion notes held during the month, $.....

Greatest amount of notes in circulation at any time during the month, $.....

I declare that the above return has been prepared under my directions and is correct according to the books of the bank.

E. F., *Chief Accountant.*

We declare that the foregoing return is made up from the books of the bank, and that to the best of our knowledge and belief it is correct, and shows truly and clearly the financial position of the bank; and we further declare that the bank has never, at any time during the period to which the said return relates, held less than forty per centum of its cash reserves in Dominion notes.

(*Place*).....this.....day of.....

A. B., *President.*

C. D., *General Manager.*

(63-64 V., c. 26, s. 47 and sch. D.)

Appendix III.

AMENDING LEGISLATION OF 1908.

An act to amend the bank act.

(7-8 Edw. VII, chap. 7.)

[*Assented to 20th July, 1908.*]

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

1. Section 61 of the bank act, chapter 29 of the Revised Statutes, 1906, is repealed, and the following is substituted therefor:

"61. The bank may issue and re-issue its notes payable to bearer on demand and intended for circulation: *Provided*, That (*a*) the bank shall not, during any period of suspension of payment of its liabilities, issue or re-issue any of its notes; and (*b*), if, after any such suspension, the bank resumes business without the consent in writing of the curator, hereinafter provided for, it shall not issue or re-issue any of its notes until authorized by the treasury board so to do.

"2. No such note shall be for a sum less than five dollars or for any sum which is not a multiple of five dollars.

"3. The total amount of such notes in circulation at any time shall not exceed the amount of the unimpaired paid-up capital of the bank: *Provided*, That during the usual season of moving the crops—that is to say, from and including the first day of October in any year to and including the thirty-first day of January next ensuing—in addition to the said amount of notes hereinbefore authorized to be issued for circulation, the bank may issue its notes, to an

amount not exceeding fifteen per centum of the combined unimpaired paid-up capital and reserve or rest fund of the bank as stated in the statutory monthly return made by the bank to the minister for the month immediately preceding that in which the additional amount is issued.

"4. Whenever, under the authority of the proviso to the next preceding subsection of this section, the issue of an additional amount of notes of the bank has been made, the general manager, or other chief executive officer of the bank for the time being, shall forthwith give notice thereof by registered letter addressed to the minister and to the president of the Canadian Bankers' Association.

"5. While its notes in circulation are in excess of the amount of its unimpaired paid-up capital, the bank shall pay interest to the minister at such rate, not exceeding five per centum per annum, as is fixed by the governor in council, on the amount of its notes in circulation in excess from day to day; and the interest so paid shall form part of the consolidated revenue fund of Canada.

"6. A return shall be made and sent by the bank to the minister showing the amount of its notes in circulation for each juridical day during any month in which any amount of notes in excess as aforesaid has been issued or is outstanding.

"7. Such return shall be made up and sent within the first fifteen days of the month next after that in which any such amount in excess has been issued or is outstanding, and shall be accompanied by declarations in the form prescribed in Schedule D to this act, and shall be signed by the persons required to sign the monthly returns made under section 112 of this act.

"8. The provisions of section 153 of this act shall apply to the return mentioned in the next preceding subsection.

"9. Notwithstanding anything in this section hereinbefore contained, the total amount of such notes of the Bank of British North America in circulation at any time shall

not exceed seventy-five per centum of the unimpaired paid-up capital of the bank: *Provided*, That—

"(*a*) The bank may issue its notes in excess of the said seventy-five per centum upon depositing with the minister, in respect of the excess, in cash or bonds of the Dominion of Canada, an amount equal to the excess; and the cash or bonds so deposited shall, in the event of the suspension of the bank, be available by the minister for the redemption of the notes issued in excess as aforesaid; and

"(*b*) The total amount of such notes of the bank in circulation at any time shall not, except as in paragraph (*c*) of this subsection authorized, exceed its unimpaired paid-up capital;

"(*c*) The bank may, during the said season of moving of crops, in addition to the circulation of its notes hereinbefore in this subsection authorized, issue its notes to an amount not exceeding ten per centum of the combined unimpaired paid-up capital and reserve or rest fund of the bank as stated in the statutory return made by the bank for the month immediately preceding that in which the said additional amount is issued; and the said additional amount shall be otherwise subject to all the provisions of this section respecting circulation in addition to or in excess of the unimpaired paid-up capital permitted to other banks.

"10. All notes issued or re-issued by any bank, and now in circulation, which are for a sum less than five dollars, or for a sum which is not a multiple of five dollars, shall be called in and cancelled as soon as practicable."

2. The following section is hereby inserted immediately after section 147 of the said act:

"147a. Every bank which neglects to make and send to the minister within the first fifteen days of the month next thereafter a return showing the amount of its notes in circulation for each juridical day during any month in the usual season of moving the crops—that is to say, from and

including the first day of October in any year to and including the thirty-first day of January next ensuing—in which any amount of its notes in excess of the amount of the unimpaired paid-up capital of the bank has been issued or is outstanding, and signed in the manner and by the persons by this act required, shall incur a penalty of fifty dollars for each and every day, after the expiration of such time, during which the bank neglects to make and send in such return."

GRAND TOTAL OF THE LIABILITIES OF THE CHARTERED BANKS OF CANADA, AS REPORTED TO THE

	1867.	1868.	1869.	1870.	1871.	1872.	1873.	1874.	1875.	1876.	1877.	1878.	1879.	1880.	1881.	1882.	1883.	1884.	1885.	1886.	1887.	
Number of banks reporting to the government	22	21	21	19	23	31	32	30	36	37	35	39	36	36	36	37	36	38	41	41	38	
Capital authorized by act	$38,466,666	$41,066,666	$40,566,666	$40,566,666	$53,223,999	$65,673,999	$67,466,666	$73,565,666	$73,966,666	$74,966,666	$74,266,666	$72,766,666	$67,266,666	$60,766,666	$66,266,666	$68,140,666	$69,306,666	$71,846,666	$74,179,999	$79,679,666	$76,079,999	$7
Capital subscribed					42,157,656	57,971,216	63,182,910	69,379,976	67,989,821	70,129,766	69,127,566	67,426,557	63,106,633	62,359,533	62,176,933	63,822,183	63,555,133	64,685,933	65,720,299	64,276,699	62,944,399	6
Capital paid up	37,342,485	39,451,419	38,127,791	38,489,963	40,132,029	50,954,099	56,931,359	63,218,935	63,446,369	66,137,305	63,756,861	64,257,010	60,351,505	59,819,603	59,677,363	61,039,657	61,451,788	61,605,520	61,761,279	61,230,376	60,352,092	6
Promissory notes in circulation not bearing interest	8,851,451	10,157,483	11,421,641	18,326,212																		
Cash deposits not bearing interest	14,689,623	16,888,417	17,781,807	19,159,645																		
Cash deposits bearing interest	15,961,589	22,640,394	27,525,442	32,897,846																		
Amount of reserve or rest fund																	17,457,718	18,339,129	17,803,766	17,930,144	17,793,824	19,7
Notes in circulation					24,480,627	27,930,172	28,407,347	28,405,192	25,595,125	22,283,660	21,794,212	21,456,641	22,252,761	27,328,358	32,358,844	36,501,694	33,589,454	31,935,933	32,363,907	34,578,347	34,354,595	34
Dominion government deposits payable on demand					3,177,039	4,129,606	4,457,283	5,875,607	3,414,433	2,917,849	5,121,890	4,437,841	3,700,777	5,807,010	6,591,901	3,393,963	3,729,445	4,625,625	6,076,031	4,445,998	5,240,386	6
Dominion government deposits payable after notice or on a fixed day					6,084,865	3,768,599	2,424,850	5,709,172	2,219,109	3,240,307	1,221,700	425,314	6,607,047	2,025,259	1,969,516	5,074,264	3,302,965	130,000	100,000	100,000	100,000	
Deposits held as security for execution of Dominion government contracts and for insurance companies														992,726	828,286	1,141,653	988,967	575,113	736,534	539,019	451,156	
Provincial government deposits payable on demand							792,111	1,671,609	1,590,767	1,246,511	730,290	473,398	483,307	1,739,033	1,364,817	773,737	741,743	700,099	1,015,124	765,481	791,347	
Provincial government deposits payable after notice or on a fixed day							2,321,729	3,754,762	2,932,747	3,236,912	505,954	296,348	116,374	596,107	721,357	1,418,307	2,434,696	1,891,311	1,475,179	508,929	1,169,213	
Other deposits payable on demand					29,194,107	30,479,309	30,708,225	35,624,746	32,861,224	35,070,764	35,408,612	38,120,759	37,889,165	42,179,627	45,958,529	47,457,360	44,594,648	42,904,831	52,119,199	50,750,882	48,981,273	45
Other deposits payable after notice or on a fixed day					21,080,063	23,377,579	26,247,153	33,483,718	23,843,014	28,576,990	28,360,041	31,285,757	30,597,257	37,059,788	43,637,079	49,422,184	42,015,098	40,405,039	49,748,931	54,020,042	56,618,392	66
Loans from, or deposits made by, other banks in Canada, secured																	14,009	310,295				
Loans from, or deposits made by, other banks in Canada, unsecured														1,848,184	1,776,977	1,092,865	1,183,288	1,113,220	1,240,327	1,559,473	2,180,130	
Balances due to agencies of the bank or other banks or agencies in foreign countries					997,941	2,102,887	1,085,792	833,877	187,982	1,033,016	180,360	289,123	75,984	168,651	171,521	211,375	155,141	60,104	113,512	124,409	80,453	
Balances due to agencies of the bank or other banks or agencies in the United Kingdom							4,781,954	6,215,920	1,726,888	1,730,332	1,206,406	1,317,139	587,194	295,940	585,702	1,349,447	1,410,171	339,653	473,895	916,040	1,947,043	
Balances due to other banks in Canada in daily exchanges	3,549,744	1,322,379	1,587,664	1,910,648	1,157,092	1,094,102	1,545,652	2,058,047	1,955,530	1,586,816	2,132,402	1,828,410	3,093,306	1,180,568	1,071,797	1,577,020	1,254,325	1,074,531	1,045,316	845,195	900,906	
Balances due to Dominion government after deducting advances for credits, pay lists, etc																						
Balances due to provincial governments																						
Deposits by the public payable on demand in Canada																						
Deposits by the public payable after notice or on a fixed day in Canada																						
Deposits payable on demand or after notice or on a fixed day made by other banks in Canada																						
Deposits elsewhere than in Canada																						
Loans from other banks in Canada, secured, including bills rediscounted																						
Deposits made by, and balances due to, other banks in Canada																						
Liabilities not included under foregoing heads					300,240	322,561	517,519	543,240	423,558	272,341	294,154	402,409	400,643	260,534	321,228	336,265	378,900	306,927	318,257	364,928	220,089	
Total liabilities	41,052,188	43,908,675	57,879,556	72,494,049	86,474,736	93,350,100	103,244,500	126,090,287	91,682,849	101,192,632	96,976,027	97,332,543	105,802,821	121,471,722	140,846,311	149,749,536	145,812,744	135,474,917	147,440,452	150,518,455	153,208,823	156

[a] Newly compiled from "Report of the chartered banks of the Dominion of Canada made to the Minister of Finance," published as Supplement to the Cana

888.	889.	1890.	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.	
38	38	38	38	39	39	38	38	38	38	38	38	36	34	35	33	34	34	36	35	33	
[illegible] 999	$[illegible] 999	$[illegible]	$[illegible] 605	$75,958,685	$75,458,685	$73,458,685	$73,458,685	$72,958,685	$71,758,084	$70,508,684	$70,108,664	$82,608,664	$76,326,666	$81,332,566	$97,046,666	$100,546,666	$102,646,666	$114,646,666	$139,966,666	$143,466,666	1
54 599	62,378,499	61 [illegible]	62 074,952	63,169,643	61,170,654	62,510,552	63,013,752	62,513,752	63,050,148	64,024,448	64,946,848	68,473,385	68,596,196	73,458,866	79,302,284	80,668,376	86,052,253	97,169,103	98,648,841	97,889,501	2
33 489	60,289,010	60 [illegible]	61,299,305	61,928,515	62,099,248	61,683,749	62,196,391	61,731,354	62,289,326	63,241,533	63,884,022	67,087,111	67,691,311	72,795,440	78,563,236	80,055,596	85,294,210	93,559,015	95,995,482	96,457,573	3
																					4
																					5
																					6
50 565	[illegible] 332	[illegible] 940,[illegible]	23,600,807	25,086,615	26,459,815	27,470,026	27,655,799	26,670,799	27,515,999	27,955,807	29,967,224	34,501,349	37,364,708	44,517,681	50,598,521	54,071,656	59,898,397	69,258,097	70,901,232	74,427,630	7
85 486	83,577,700	35 [illegible]	36,034,129	36,194,023	34,418,936	32,375,620	32,805,179	31,096,784	31,905,123	40,268,281	45,999,753	50,758,246	54,372,788	60,574,744	62,339,457	64,507,394	69,981,674	78,416,780	77,504,398	73,058,234	8
55 [illegible]46	4,848,533	3 [illegible]	4,884																		9
68 374																					10
37 833	100,672	110,078																			11
																					12
67 558	687,957	498,228																			13
27 809	2,004,104	1,606,915																			14
25 682	58,204,618	62,668,196																			15
52 736	81,615,628	80,264,600																			16
52 027	49,980	154,000	41,129	150,000		6,272	12,403	149,906	2,000		106,979										17
70 [illegible]00	1,[illegible]99,[illegible]	1,476,722																			18
33 [illegible]29	89,284	113,[illegible]	130,374	127,480	166,966	166,715	219,541	341,530	146,136	605,804	908,901	526,104	1,052,699	1,157,683	1,810,528	1,224,293	1,569,828	1,716,823	4,742,092	2,979,540	19
23 311	[illegible]057,080	1,412,382	1,426,382	4,120,696	4,151,804	3,531,682	4,326,912	2,834,450	[illegible]66,266	2,217,758	4,360,301	4,190,638	1,754,773	5,611,582	2,884,279	2,452,651	4,098,095	8,207,158	10,330,260	2,186,228	20
33 203	736,893	615,600	115,264	118,811	200,476	158,380	119,538	93,962	131,631	127,447	196,373										21
			2,238,867	4,499,130	3,399,290	5,440,325	4,804,362	3,268,402	5,100,145	3,491,731	4,627,692	4,549,906	4,864,646	6,497,229	3,806,064	5,508,446	5,211,318	4,730,421	11,315,319	4,343,942	22
			2,844,747	2,988,496	2,977,986	2,243,823	2,309,932	2,260,126	2,286,768	3,002,073	2,459,469	2,918,097	2,822,888	3,193,493	3,970,577	7,148,442	6,344,171	9,687,279	7,527,112	11,622,015	23
			62,649,348	68,694,268	62,694,075	68,917,542	67,452,197	70,529,211	81,881,687	95,747,210	99,463,898	109,416,035	102,309,034	115,690,499	120,529,032	134,280,204	155,346,759	193,143,482	157,185,414	210,180,147	24
			96,468,184	101,526,186	107,885,149	113,163,127	119,676,176	120,101,012	140,120,460	157,824,875	173,769,968	188,479,500	233,411,229	254,117,869	279,327,788	319,132,078	356,880,974	398,765,182	402,626,036	429,719,228	25
			2,530,933	2,764,171	2,401,194	2,534,463	2,919,469	2,644,940	3,127,781	2,888,319	2,998,674										26
												20,442,385	31,355,262	37,699,319	34,479,917	38,814,923	44,063,572	64,191,182	53,497,203	66,903,834	27
												1,642,187	737,473	719,738	895,949	811,954	766,749	5,717,730	1,959,639	6,005,939	28
												2,823,710	4,155,273	4,102,550	4,155,565	5,684,483	5,678,809	6,395,645	6,646,570	7,900,062	29
58 [illegible]51	437,[illegible]65	[illegible]574	487,391	474,426	446,796	368,128	[illegible]1,[illegible]98	[illegible]59,149	534,000	609,401	726,541	6,383,600	10,236,648	13,114,489	11,475,029	8,353,622	12,218,155	12,684,795	10,450,630	6,017,033	30
90,898	[illegible]884,[illegible]86	[illegible]8[illegible]331	109,453,819	111,567,771	118,662,065	228,995,558	235,218,[illegible]970	241,858,840	[illegible]28,[illegible]070	300,773,075	336,018,630	392,150,481	449,091,985	499,508,534	525,924,229	587,918,063	662,160,127	782,656,528	741,694,282	820,916,668	31

[illegible] [illegible] [illegible]

TABLE SHOWING GRAND TOTALS OF THE ASSETS OF THE CHARTERED BANKS OF CANADA, AS REPORTED TO

	1867.	1868.	1869.	1870.	1871.	1872.	1873.	1874.	1875.	1876.	1877.	1878.	1879.	1880.	1881.	1882.	1883.	1884.	1885.	1886.	1887.
Cash, bullion, and provincial notes	$9 388 322	$11,820,726	$14,068,956	$14,018,075																	
Provincial notes or bills of other banks	1 017 540	2,021,713	2,234,644	2,440,570																	
Balances due from other banks	5 451 188	8,617,510	6,833,866	9,887,577																	
Government securities	5 507 453	3,028,939	5,911,413	4,947,448																	
Notes and bills discounted	52 827 508	53,652,869	60,336,382	75,673,476																	
Landed or other property of the bank	3 603 865	1,667,650	1,636,904	1,684,497																	
Other debts due to the bank not included under the foregoing heads	2 642 013	3 803,862	2,965,946	3,471,668																	
Specie					$8 755,232	$8,450,025	$7 029,602	$7,481,918	$6 276,373	$6,176,104	$6,127,739	$5,623,005	$6,809,029	$5,965,270	$6,561,619	$6,555,761	$7,225,552	$7,469,756	$6,710,058	$5,891,576	$6,037,563
Provincial or Dominion notes					6,902,375	8,219,721	8,994,811	9,592,455	2,932,701	8,318,113	8,896,455	8,098,205	9,136,439	10,520,302	9,856,537	10,461,842	11,176,840	10,007,629	12,446,829	9,408,594	10,530,196
Notes and cheques of other banks					3,028,931	3,953,652	4,538,124	5,829,737	4,321,021	4,187,075	4,417,169	4,381,070	4,550,554	4,565,005	5,835,446	6,795,973	7,288,367	6,100,270	7,869,777	7,135,976	6,474,758
Balances due from other banks in Canada					2,022,829	2,034,741	2,487,957	3,808,632	3,028,219	3,608,417	3,523,669	4,489,323	4,741,016	3,263,553	3,555,260	1,331,521	3,307,283	2,331,317	1,304,533	1,907,886	1,855,218
Balances due from other banks in Canada in daily exchange																					
Balances due from agencies of the bank or from other banks or agencies in foreign countries					14,476,213	10,814,174	6,276,390	8,888,003	7,986,669	6,948,860	4,685,860	5,803,848	19,313,583	27,941,508	19,776,513	11,140,975	18,060,156	12,411,217	16,098,642	13,446,375	11,097,795
Balances due from agencies of the bank or from other banks or agencies in the United Kingdom					3,277,031	1,458,917	1,170,494	2,205,283	1,285,357	1,290,501	5,287,245	4,714,424	5,814,626	1,813,235	4,225,913	5,118,913	1,936,556	2,581,665	3,268,154		
Dominion government debentures or stock					1,237,870	1,449,835	1,251,529	1,204,481	1,162,767	1,280,590	2,682,262	2,203,179	2,086,922	1,122,109	1,099,822	1,006,869	900,722	1,405,435	4,317,070	4,438,638	3,999,679
Loans, discounts, or advances for which shares of the capital stock of another bank are held as collateral security							3,812,914	6,308,810	3,950,401	2,829,588	2,091,522	2,580,616	1,200,446								
Loans, discounts, or advances for which bonds or debentures of municipal or other corporations or Dominion, provincial, British, or foreign public securities are held as collateral							2,503,662	6,600,816	3,438,599	6,814,100	5,506,701	5,782,760	5,894,222								
Loans, discounts, or advances on current accounts to corporations					2,103,189	2,760,601	2,871,294	3,408,054	2,795,656	4,734,335	1,581,615	3,794,917	4,454,973								
Notes and bills discounted and current					89,764,479	118,384,194	118,137,382	129,379,457	113,447,354	122,562,334	116,475,030	117,556,319	97,603,688								
Loans to the Dominion of Canada																					
Loans to the provincial governments					1,362,218	543,683	281,173	244,000		97,147	192,984	77,654	80,699	609,230	895,998	651,950	825,182	1,517,432	1,170,642	1,583,783	1,004,181
Notes and bills discounted and overdue not specially secured							19,507	70,810	85,318	277,089	813,349	1,838,724	574,515	632,137	823,765	911,523	1,696,007	850,848	1,296,190	1,594,284	2,063,674
Overdue debts secured by mortgage or other deed on real estate or by deposit of, or lien on, stock or by other securities					1,406,543	1,141,410	1,580,312	1,494,808	4,099,102	3,185,631	3,133,176	2,666,200	2,921,818	1,783,071	1,167,267	1,310,435	2,100,756	3,222,805	1,545,858	1,109,611	1,412,963
Overdue debts not secured					1,147,162	1,553,863	1,461,383	1,397,674	2,440,614	4,218,986	4,087,591	3,774,681	3,474,926								
Real estate, the property of the bank (other than bank premises) and mortgages on real estate sold by the bank					866,681	747,790	586,096	575,449	785,921	1,067,029	1,242,171	2,141,827	2,384,454								
Bank premises					1,780,603	2,022,941	2,400,433	2,781,297	2,869,021	3,174,299	3,100,292	4,518,848	5,347,966	3,140,523	3,020,158	3,116,247	3,061,835	3,188,745	3,317,860	3,569,524	3,659,014
Loans on or deposits made in other banks, secured																					
Loans on or deposits made in other banks, unsecured																					
Provincial, British, or foreign or colonial public securities other than Canadian																					
Notes, discounts, or advances for which stocks, bonds, or debentures of municipal or other corporations or Dominion, provincial or foreign or colonial securities are held as collateral														683,070	882,567	379,457	235,308	247,614	679,542	494,014	274,326
Loans, discounts, or advances on current account to municipal corporations														1,505,342	1,802,504	1,285,079	1,325,044	1,012,985	3,351,106	3,040,212	3,659,640
Loans, discounts or advances on current account to other corporations														8,011,068	13,976,340	16,861,581	10,415,155	11,929,655	12,556,030	13,153,174	10,411,761
Other current loans, discounts, and advances to the public														690,384	646,350	1,988,916	1,259,904	1,331,802	1,578,397	2,144,802	2,813,835
Other overdue debts not specially secured														4,325,600	7,750,537	12,153,532	15,254,666	15,878,352	14,070,832	14,855,133	15,871,454
Bank and bills discounted overdue and other overdue debts secured														108,587,672	123,710,008	144,414,108	133,378,550	122,109,496	125,493,860	136,632,631	138,398,246
Real estate, the property of the bank (other than bank premises)														217,693	212,304	141,262	175,524	132,677	98,688	80,128	52,120
Mortgages on real estate sold by the bank														3,015,309	2,174,370	1,679,854	2,120,018	3,091,569	2,022,278	452,775	1,557,944
Bank premises														1,998,311	1,718,850	1,409,833	1,096,893	1,219,421	1,379,820	1,231,261	1,218,352
Notes of other banks														393,713	505,087	693,763	848,013	842,300	661,118	821,281	673,457
Deposit with Dominion government for security of note circulation																					
Deposits payable on demand or after notice or on a fixed day with other banks in Canada																					
Canadian municipal securities and British provincial or foreign or colonial public securities other than Dominion																					
Call loans on bonds or stocks																					
Current loans																					
Provincial, British, and other railway securities																					
Overdue debts																					
Loans to other banks in Canada, secured, including bills rediscounted																					
Balances made with and balances due from other banks in Canada																					
Dominion and provincial government securities																					
Call and other loans on stocks and bonds in Canada																					
Call and other loans elsewhere than in Canada																					
Railway and other bonds, debentures, and stocks																					
Current loans in Canada																					
Current loans elsewhere than in Canada					2,570,293	2,500,764	2,468,252	2,455,846	2,413,385	2,105,104	2,351,994	2,516,814	4,428,196	2,691,920	2,861,979	2,600,379	1,881,452	2,791,199	2,886,348	2,923,909	2,574,807
Other assets not included under the foregoing heads																					
Total assets	78 [illegible] 098	85,192,921	93,968,174	110,973,311	136,016,959	157,639,816	169,827,716	200,905,145	167,155,606	181,880,061	176,364,764	178,138,495	178,302,684	192,537,574	213,588,098	230,675,211	228,193,650	215,787,311	227,803,346	231,300,282	[illegible] 281

[illegible] Total [illegible]

1888	1889	1890	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.	
																					1
																					2
																					3
																					4
																					5
																					6
																					7
$72[illegible]	$5 907 601	$6 620 248	$5 709 311	$6 720 500	$7 091 331	$8 018 181	$8 239 378	$8 593 212	$8 268 023	$8 966 421	$9 584 702	$11 273 336	$11 571 337	$12 892 235	$16 101 019	$17 612 509	$19 649 545	$23 752 750	$25 119 474	$27 099 074	8
6[illegible]	9 [illegible]	9 678 332	10 113 040	12 381 108	13 267 292	15 209 730	15 963 001	15 225 788	17 726 048	17 999 829	17 910 241	19 785 173	21 405 397	24 730 575	30 941 367	38 436 981	38 055 620	44 966 154	49 961 600	60 124 769	9
861 385	5 826 335	7 714 525	9 119 736	8 746 293	8 323 753	8 614 221	9 115 065	9 016 940	11 826 324	10 829 354	12 561 732	16 401 559	16 993 896	20 517 283	21 686 472	23 784 768	28 345 495	38 937 901	33 853 075	40 393 747	10
803 061	6 182 252	3 335 890																			11
			250 087	140 885	173 697	207 672	153 144	180 307	268 524	201 345	322 401										12
998 [illegible]	12 729 887	9 199 504	18 404 364	21 688 396	18 229 248	25 399 986	17 807 593	16 743 355	23 547 288	23 253 094	22 291 749	11 677 099	11 456 756	13 694 959	12 703 927	20 849 499	14 344 574	15 512 627	16 308 929	34 929 007	13
703 936	6 961 996	4 031 652	6 337 591	1 036 344	1 540 220	3 097 628	8 175 674	9 585 038	15 519 940	12 169 589	12 038 307	5 249 232	6 883 729	9 023 489	9 258 198	9 041 191	8 308 239	7 844 990	6 074 747	14 662 030	14
045 056	2 803 236	2 402 347	3 001 722	3 328 082	3 191 383	3 124 594	2 830 276	2 796 828	4 731 099	5 064 673	4 729 102										15
																					16
																					17
																					18
																					19
246 447	1 036 590	933 739																3 217	4 864 442		20
582 534	922 100	1 747 315	611 420	2 447 234	2 203 212	2 424 196	248 112	822 195	1 820 403	2 795 434	2 358 010	3 137 924	3 793 636	4 724 119	2 708 299	2 934 306	2 063 362	1 356 957	446 204	3 919 766	21
960 029	1 052 996	1 420 785																			22
																					23
																					24
707 699	3 957 122	4 187 552	4 403 619	4 661 621	5 132 156	5 480 578	5 [illegible] 487	5 640 569	5 647 911	5 907 990	5 977 577	6 496 104	6 753 172	7 556 230	8 969 272	10 165 141	11 569 131	14 869 607	17 183 649	18 186 682	25
587 793	290 708	404 888	41 706	150 000		6 222	7 403	150 000	2 000		374 930										26
105 000	200 738	55 000																			27
475 182	5 580 052	6 841 090																			28
220 187	13 576 388	13 440 019																			29
706 035	1 655 171	1 690 187																			30
882 233	23 209 430	27 268 006																			31
795 285	555 422 602	153 236 184																			32
744 [illegible]	63 328	65 579																			33
496 [illegible]	6 611 284	6 263 029																			34
989 547	990 680	1 027 107	1 144 391	1 002 287	834 480	919 938	1 332 394	2 073 594	2 093 188	1 888 583	1 479 780	1 145 701	886 497	864 820	779 993	691 582	691 828	918 028	968 610	1 218 540	35
696 489	824 489	836 451	785 713	798 699	636 640	575 679	550 341	452 696	560 663	573 912	654 270	508 711	730 250	762 182	724 446	805 101	481 970	470 959	447 212	494 730	36
			843 075	1 761 259	1 818 571	2 819 736	1 814 264	1 846 318	1 883 067	1 999 523	2 056 344	2 387 973	2 568 918	3 207 270	3 130 844	3 328 771	3 435 334	4 327 669	4 255 670	4 070 212	37
			3 289 518	3 616 137	3 630 883	3 965 345	3 610 210	3 363 846	4 321 539	4 035 991	4 707 715										38
			6 438 105	8 614 936	9 981 680	9 919 071	9 743 759	10 623 247	13 798 562	17 209 572	16 761 897	12 290 984	14 528 036	14 879 664	14 517 538	17 241 673	20 163 939	21 376 833	19 907 744	19 606 371	39
																					40
			14 401 695	19 957 943	14 236 629	17 791 638	17 089 307	14 030 962	19 859 822	26 532 040	32 435 445										41
			186 590 602	198 532 160	200 397 498	195 836 141	202 088 259	210 522 074	205 911 017	229 900 030	266 678 602										42
			4 825 965	6 243 333	6 692 856	8 433 572	10 893 702	11 875 189	16 944 638	17 220 105	14 663 868										43
			2 656 588	2 387 268	3 040 028	3 425 752	4 412 237	3 948 746	5 318 285	3 463 410	4 899 801	1 924 422	2 105 705	1 764 813	2 229 568	2 149 162	1 665 732	3 048 280	3 470 200	3 787 956	44
												1 607 186	2[illegible] 473	719 777	886 531	811 954	684 898	5 717 714	1 309 638	0 330 158	45
												4 402 855	5 823 200	1 873 136	6 392 486	8 183 400	8 591 796	9 832 685	10 370 043	12 350 702	46
												12 451 142	9 708 701	9 455 752	10 722 900	9 561 422	9 182 353	9 536 448	9 210 710	10 497 945	47
												13 981 478	17 651 941	51 385 890	39 029 667	38 950 978	49 704 928	57 511 747	44 501 112	43 827 771	48
												27 234 789	45 263 961	41 704 054	34 991 423	48 782 441	61 020 020	58 958 156	43 509 229	97 230 400	49
												25 507 842	31 994 130	36 925 800	38 351 233	38 744 635	39 649 068	41 455 319	41 972 437	44 273 479	50
												274 646 892	289 158 647	322 879 089	384 419 017	413 779 520	458 355 360	548 684 480	556 588 461	511 808 909	51
												20 079 290	32 160 566	34 111 237	18 646 548	17 344 724	30 883 959	30 424 311	23 928 188	10 351 721	52
208 [illegible]	2 [illegible] 612	2 453 615	1 537 649	1 721 416	1 129 385	1 750 899	1 828 737	2 107 092	2 093 550	2 359 236	2 660 221	2 792 097	9 841 052	7 105 459	5 983 964	6 720 804	8 096 970	9 394 680	8 055 258	10 243 050	53
364 [illegible]	282 166 563	260 737 159	280 754 661	305 730 910	304 231 696	323 921 995	322 184 802	329 692 255	360 133 088	390 470 128	411 718 345	501 542 515	562 077 793	625 188 209	663 145 534	729 915 962	815 533 302	964 192 546	921 167 975	1 001 352 290	54

APPENDIX V.

CANADIAN BANK STATISTICS 1889–1908 AS OF DECEMBER 31, 1889–1908.[a]

	1889	1890.	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905	1906.	1907.	1908.	
Number of banks	38	38	38	39	39	38	38	38	38	38	38	36	34	35	33	34	34	36	35	33	1
Number of branches	402	426	468	479	502	513	530	533	535	622	663	708	750	904	1,049	1,145	1,454	1,745	1,886	1,927	2
Number of inhabitants to each branch	11,770	11,226	10,327	10,202	9,842	9,736	9,525	9,572	9,390	8,376	7,939	7,520	7,161	6,001	5,223	4,832	3,842	3,232	3,019	2,982	3
Subscribed capital	$62,378,499	$61,253,732	$62,674,952	$63,169,643	$63,170,634	$62,520,552	$63,023,752	$62,513,752	$63,050,148	$64,024,448	$64,946,848	$68,473,385	$68,396,166	$73,458,866	$79,302,284	$80,668,376	$86,052,253	$97,269,303	$98,648,841	$97,889,591	4
Paid-up capital	$60,289,910	$60,037,235	$61,299,303	$61,938,513	$62,099,241	$61,683,719	$62,196,391	$61,731,154	$62,289,326	$63,241,533	$63,584,022	$67,087,111	$67,391,211	$72,795,440	$78,163,236	$80,035,591	$85,494,210	$95,589,015	$95,995,482	$96,457,573	5
Surplus (rest)	$20,371,332	$21,940,369	$23,666,827	$25,086,615	$26,459,815	$27,470,026	$27,665,799	$26,670,799	$27,515,999	$27,955,867	$29,967,724	$34,301,349	$37,364,768	$44,517,681	$50,598,511	$54,071,636	$59,898,497	$69,458,007	$70,901,232	$74,427,030	6
Total of paid-up capital and surplus	$80,661,242	$81,997,604	$84,966,132	$87,025,130	$88,559,058	$89,153,745	$89,862,190	$88,402,153	$89,805,325	$91,197,340	$93,551,746	$101,388,460	$104,956,019	$117,313,121	$128,761,747	$134,127,252	$145,392,707	$164,767,022	$166,896,714	$170,885,203	7
Reserve liabilities of shareholders[b]	$2,088 589	$1,196.497	$1,375.647	$1,231,128	$1,073,411	$826,833	$817,361	$782,398	$760,822	$782,915	$1,362,826	$1,386,274	$1,004,855	$663,426	$739,048	$612,780	$1,358,043	$1,760,288	$2,653,359	$1,432,018	8
Deposits	$133,977,011	$139,703,653	$158,691,131	$177,618,078	$176,856,500	$189,764,847	$194,313,857	$202,098,751	$229,389,055	$254,065,889	$280,391,027	$325,823,923	$374,782,259	$416,928,229	$442,773,398	$504,883,683	$567,846,794	$669,317,537	$632,061,124	$722,769,156	9
Cash on hand	$13,083,475	$16,329,270	$15,882,353	$19,101,608	$20,978,623	$23,227,881	$24,202,379	$23,819,000	$25,994.071	$26,966,243	$27,494,943	$31,558,509	$32,970,734	$37,622,810	$47,042,386	$56,054,512	$57,705,165	$68,018,904	$75,083,334	$93,223,834	10
Per cent of cash to deposit liabilities	11.26	11.68	10.01	10.73	11.86	12.24	12.45	11.97	11.33	10.61	9 81	9 69	8.88	9.02	10.64	11.10	10.16	10.16	11.88	12.89	11
Money on call or short notice	$13,316,388	$13,449,019	$14,401,695	$19,957,943	$14,236,629	$17,791,638	$17,089,307	$14,030,962	$19,859,822	$26,532,040	$32,435,448	$61,216,265	$82,913,902	$93,089,944	$74,021,090	$87,733,419	$110,714,948	$116,469,903	$88,610,341	$140,964,171	12
Net foreign balances	$13,555,609	$12,691,304	$23,169,199	$18,476,564	$17,450,698	$24,699,817	$21,527,014	$23,152,413	$18,070,826	$32,599,121	$29,100,354	$12,209,589	$13,533,013	$15,949,183	$14,922,281	$21,753,556	$12,875,909	$13,433,656	$7,311,334	$49,591,037	13
Per cent net foreign balances to deposit liabilities	10 11	8 37	14 60	10 40	9 87	13 02	11 08	11 46	16 60	12 83	10 38	3 75	3 61	3 82	3 37	4 31	2 27	2 01	1 16	6 86	14
Per cent call loans to deposit liabilities	10 09	9 62	9 07	11 24	8 05	9 38	8 79	6 94	8 66	10 44	11 57	18 79	22 12	22 81	16 74	17 38	19 50	17 40	13 92	19 50	15
Notes outstanding	$33,577,700	$35,006,274	$35,034,129	$36,194,023	$34,418,936	$32,375,620	$32,565,179	$33,695,784	$37,995,123	$40,258,381	$45,999,753	$50,758,246	$54,372,788	$60,574,144	$62,539,407	$64,507,394	$69,981,574	$78,416,780	$77,504,398	$73,038,234	16
Investments and securities	$8,153,267	$8,603,487	$14,323,792	$18,186,551	$19,865,919	$21,477,727	$23,467,237	$25,295,264	$35,474,299	$39,494,350	$36,196,867	$50,249,968	$56,290,867	$61,261,206	$63,591,671	$65,347,730	$68,995,360	$72,368,600	$71,089,897	$74,317,795	17
Discounts, loans, and advances	$170,850,693	$185,860,429	$187,202,022	$200,979,394	$202,661,210	$197,260,337	$202,836,571	$211,394,469	$207,751,420	$232,693,464	$269,036,611	$298,864,106	$325,122,849	$361,334,445	$405,744,494	$434,058,559	$491,301,687	$586,318,885	$584,827,285	$646,079,946	18
Per cent of capital and rest paid to other liabilities	40 98	45 85	42.60	39 28	40 50	38 95	38.20	36 56	32.97	30.32	27 84	25.90	23.37	23.48	24.56	22.81	21.93	21.05	22.44	20 82	19
Average per cent of dividend	7 56	7.72	7.76	7.74	7.71	7.65	7.48	7 37	7 47	7 47	7 61	7 59	7 88	7 91	7 99	7 94	8 11	8 27	8 59	8 53	20
Average per cent of dividend to total of capital paid up and rest	5 63	5 63	5 60	5 51	5 41	5 29	5 18	5 15	5 18	5 18	5 17	5 01	5 07	4 91	4 87	4 74	4 76	4 79	4 90	4 82	21
Overdue debts	$2,747,668	$2,358,393	$2,036,588	$2,387,468	$3,040,078	$3,425,752	$4,412,237	$3,988,746	$3,238,285	$2,463,410	$1,899,801	$1,924,422	$2,105,795	$1,764,813	$2,229,568	$2,149,162	$1,665,732	$3,648,289	$3,422,200	$7,387,926	22

[a] Compiled from the "Report of the Chartered Banks of the Dominion of Canada made to the Minister of Finance," published as supplement to the *Canada Gazette* 1890–1909.

[b] This item shows only the difference between capital subscribed and capital paid up. There rests upon the shareholders an additional liability, in case of the failure of the bank in which they own shares, equal to the amount of the subscribed stock.

APPENDIX VI.

TABLE SHOWING THE TOTAL CIRCULATION, BY MONTHS, 1868–1908, INCLUSIVE, OF THE CHARTERED BANKS OF THE DOMINION OF CANADA [a]

	1868	1869	1870	1871	1872	1873	1874	1875	1876	1877	1878	1879	1880	1881	1882	1883	1884	1885	1886	1887	1888	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	1900	1901	1902	1903	1904	1905	1906	1907	1908	
January	$ 4,400,036	$ 9,730,021	$ 11,488,260	$ 19,441,917	$ 23,735,695	$ 28,796,854	$ 21,119,361	$ 19,440,833	$ 21,969,060	$ 22,356,939	$ 20,440,277	$ 19,983,959	$ 20,151,101	26,010,033	$ 31,865,730	$ 33,722,447	$ 31,933,076	$ 29,689,046	$ 29,845,225	$ 31,210,020	$ 31,966,112	$ 31,592,373	$ 30,819,061	$ 32,662,069	$ 32,766,425	$ 31,892,747	$ 31,532,371	$ 31,828,983	$ 31,281,276	$ 29,429,063	$ 30,108,137	$ 33,146,129	$ 33,646,083	$ 36,026,229	$ 36,323,823	$ 38,168,229	$ 40,035,804	$ 46,486,620	$ 50,199,317	$ 56,821,356	
February	4,284,479	9,043,004	10,613,494	19,355,965	24,081,370	27,330,213	21,342,195	18,468,246	21,434,475	20,939,430	20,198,503	19,424,558	20,405,079	26,169,190	32,324,140	34,044,909	29,378,373	30,166,089	29,621,142	31,304,877	31,268,429	31,666,153	31,221,840	32,613,980	32,711,253	31,238,840	30,603,263	31,845,414	28,826,356	30,402,822	33,329,243	33,646,107	36,178,249	36,508,919	39,414,893	39,747,359	46,146,025	
March	4,210,930	9,005,420	12,600,169	19,360,329	26,230,744	26,573,101	21,230,800	18,851,534	21,480,492	20,621,968	20,195,193	19,193,486	20,321,374	26,419,316	32,942,369	34,141,813	30,157,882	29,791,362	29,559,986	31,342,409	31,084,183	32,477,332	31,304,181	33,021,661	32,483,065	31,430,781	30,392,603	31,634,908	28,284,464	30,660,233	33,829,484	33,641,067	36,488,382	36,385,464	39,700,199	39,561,813	46,146,025	
April	4,021,067	8,997,689	13,253,293	19,168,424	25,301,660	24,398,229	20,620,845	18,541,579	20,292,092	19,960,368	19,246,565	18,162,408	19,664,241	26,044,888	32,112,335	33,267,056	29,439,625	28,491,603	29,261,603	30,467,893	30,648,178	31,299,642	30,674,998	32,674,938	30,974,606	31,406,364	31,633,771	29,998,472	28,154,810	29,614,923	32,844,953	33,741,634	37,189,883	43,908,439	43,008,301	39,692,168	45,817,447	38,649,890	39,940,948	46,129,899	4
May	3,903,441	8,895,480	18,400,910	20,445,908	24,385,624	24,894,840	20,494,240	18,741,698	18,946,284	18,946,273	18,403,363	17,429,608	20,619,322	25,571,729	31,665,044	32,302,055	28,402,949	29,124,285	28,900,363	30,080,653	29,958,774	30,912,400	30,821,404	32,027,214	31,182,118	31,297,842	28,467,318	28,409,184	28,711,318	30,988,110	33,855,170	36,406,724	40,208,194	42,121,351	39,842,113	45,337,074	38,136,039	39,242,113	45,370,018	5
June	3,894,854	8,665,198	24,163,548	18,339,893	25,040,027	24,558,241	20,163,846	18,161,356	20,040,277	18,161,356	18,806,254	18,241,553	18,990,804	25,280,130	30,302,396	32,329,937	32,121,946	29,654,334	29,592,803	29,202,673	30,458,152	30,444,048	31,209,972	32,019,177	32,373,885	32,614,649	32,483,413	30,254,339	30,106,438	30,155,844	33,260,479	36,589,103	39,097,308	43,133,363	40,119,479	41,118,043	38,803,845	40,098,480	41,583,560	46,960,595	6
July	3,804,629	8,716,119	23,460,229	19,482,240	25,897,325	25,284,470	21,256,400	20,060,308	19,292,159	18,588,330	18,806,254	18,806,254	19,805,253	26,296,626	30,481,784	32,779,231	32,093,958	30,203,962	30,884,643	30,845,294	30,841,253	30,240,453	31,223,658	32,313,468	32,891,722	32,378,115	32,009,264	30,778,473	30,155,546	30,410,200	40,603,206	48,547,378	51,111,261	53,184,661	50,039,810	61,477,193	58,182,039	59,494,781	60,697,253	3
August	3,804,796	8,748,599	23,180,648	19,334,363	26,263,794	25,462,596	19,760,854	19,760,854	19,760,854	19,760,854	19,760,854	19,760,854	19,760,854	25,414,082	30,458,082	32,363,241	32,146,449	30,218,449	30,908,359	29,513,389	30,666,467	30,448,815	31,000,184	32,328,363	32,202,490	32,601,261	32,014,156	30,744,466	30,202,166	30,202,166	40,603,206	48,547,378	51,111,261	53,184,661	50,039,810	61,477,193	58,182,039	59,494,781	60,697,253	3
September	3,888,557	9,360,616	23,335,475	20,102,473	26,174,803	25,933,781	20,352,062	19,262,576	20,226,736	21,922,749	20,425,258	20,004,589	24,169,598	27,653,582	31,933,385	33,245,845	32,416,024	31,334,621	31,397,095	31,355,609	32,223,116	32,888,419	33,322,319	34,083,031	34,307,671	33,118,206	33,255,136	32,724,442	30,623,116	28,916,211	40,661,191	48,684,028	50,389,530	56,092,467	50,265,811	61,748,270	63,705,969	64,831,189	77,109,340	79,465,000	76,206,237	9
October	3,841,442	11,163,328	28,644,899	20,944,568	25,618,963	26,390,714	21,441,806	23,590,874	24,693,239	24,693,239	24,693,239	24,693,239	24,693,239	35,384,245	35,769,243	33,398,979	34,350,466	33,653,941	33,709,934	33,260,141	33,183,314	32,660,353	34,899,830	36,144,546	37,439,699	32,124,593	33,120,562	33,076,868	34,362,146	35,166,249	40,142,836	49,588,366	53,198,371	57,564,329	61,246,923	61,748,270	63,705,969	64,831,189	77,109,340	79,465,000	76,206,237	10
November	4,061,619	11,619,640	28,965,333	24,235,894	27,470,403	27,356,119	20,334,313	24,629,306	24,693,239	24,693,239	24,693,239	24,693,239	24,693,239	35,384,245	35,769,243	33,398,979	34,350,466	33,653,941	33,709,934	33,260,141	33,183,314	32,660,353	34,899,830	36,144,546	37,439,699	32,124,593	33,120,562	33,076,868	34,362,146	35,166,249	40,142,836	49,588,366	53,198,371	57,564,329	61,246,923	61,748,270	63,705,969	64,831,189	77,109,340	79,465,000	76,206,237	
December	4,157,463	11,211,641	28,526,422	24,480,623	27,930,232	28,477,117	21,463,102	20,831,009	22,283,660	23,796,212	22,435,642	22,250,761	27,326,518	39,358,644	36,501,694	35,589,434	33,555,933	32,380,651	34,537,142	34,564,595	34,788,466	33,720,000	35,906,234	35,634,169	36,704,023	34,418,036	31,235,690	32,563,179	33,093,784	34,874,444	42,552,407	49,407,804	54,803,394	59,582,564	58,416,389	63,504,238	63,705,234	

[a] Compiled from the "Report of the Chartered Banks of the Dominion of Canada to the Minister of Finance" published as supplement to the *Canada Gazette* 1868 to 1908, Ottawa.

Appendix VII.

BY-LAWS OF THE CANADIAN BANKERS' ASSOCIATION.

[A corporation created by special act of the Parliament of Canada, 63 and 64 Vict., C. 93 (1900).]

The following by-laws are hereby enacted as by-laws of the Canadian Bankers' Association:

1. The annual general meetings of the association shall be held on the second Thursday of the month of November in each year, at such hour and place as may be decided upon by the executive council of the association from time to time. Special general meetings of the association may be called at any time by the said executive council, and shall be called by the president or secretary-treasurer on the written requisition of at least 5 members of the association.

The requisition (if any) for and the notice calling any special general meeting shall specify therein the general nature of the business to be considered or transacted thereat. Special general meetings shall be held at such time, hour, and place as shall be mentioned in the notice calling the same. Thirty days' notice shall be given of every general meeting of the association, whether annual or special. At any annual or special general meeting of the association 7 persons, duly representing members of the association, shall form a quorum.

At any annual general meeting of the association any business may be transacted thereat.

At any special general meeting of the association only such business shall be transacted as is mentioned in the notice calling such special general meeting.

2. At every annual general meeting the members of the association, through their representatives or proxies, shall elect from among the chief executive officers (as defined by charter of incorporation) of members of the association, a president, 4 vice-presidents, and 14 councilors, all of whom shall hold office until the next annual general meeting, or until their successors are appointed, and may also elect honorary presidents of the association, not exceeding 3 in number, who shall also hold office until the next annual general meeting after their election.

3. The executive council of the association shall consist of the president and vice-presidents, and the said 14 councilors aforesaid, and 5 shall form a quorum for the transaction of business.

The honorary presidents shall also have seats at the executive council, but shall have no vote thereat.

4. At all meetings of the association each member shall have one vote upon each matter submitted for vote. The chairman shall, in addition to any vote he may have as chief executive officer or proxy, have a casting vote in case of a tie.

Each associate shall also have one vote on all subjects except the following, on which members only shall be permitted to vote: 1, election of officers; 2, action relating to proposed legislation; 3, by-laws; 4, adding to or amending the charter; 5, all other subjects on which general action by the banks is contemplated.

5. The executive council may meet together for the dispatch of business, adjourn and otherwise regulate its meetings as it by resolution or otherwise may determine from time to time.

The secretary-treasurer shall at any time at the request of the president or any vice-president or any other member

of the executive council convene a meeting of the council: *Provided, however,* That no business shall be transacted at a meeting called at the request of a member unless the notice calling the meeting specifies in some general terms that such business will be transacted thereat, but this provision shall not apply to any meeting called at the request of the president or any vice-president.

On all questions arising at any meeting of the executive council each member shall have one vote in addition to any vote he may have as proxy, and the chairman shall have in addition a casting vote.

6. At all meetings of the association and of the executive council the president, when present, shall be chairman, and in his absence one of the vice-presidents chosen by the members of the council then present; and in the absence of the president and vice-presidents the members of the council then present may choose some one of their number to be chairman of such meeting.

7. Any member not represented at a meeting of the association by one of the officers named in section 8 of the charter of incorporation may vote by proxy, provided such proxy is held by an associate who is an assistant general manager, or assistant cashier, inspector or manager of any bank, or any branch thereof.

Any member of the executive council, when not present at any meeting thereof, may be represented thereat by proxy, provided such proxy is held by such an associate as is before mentioned in this by-law. Proxies shall be in writing.

8. The executive council may from time to time repeal, amend, or add to any of the by-laws of the association, except those relating to dues, to the clearing house, to the curator and his duties, and to the circulation; but every such repeal, amendment, or addition shall only have force until the next annual general meeting of the association,

and if not confirmed thereat shall thereupon cease to have force.

9. The said executive council shall have power from time to time to appoint a secretary-treasurer, who shall be an officer or ex-officer of a bank, and to remove him from office, and to fix his remuneration and the terms of his engagement.

The executive council shall also have power from time to time to appoint a solicitor or solicitors and to fix their remuneration for either general or special services, and also to engage counsel where such services may be needed.

10. Existing subsections of the voluntary association are hereby continued as, and constituted, subsections of the association as incorporated. Subsections hereby or hereinafter constituted may pass by-laws for their guidance, subject always to the provisions of the charter of incorporation and the by-laws of the association.

The bankers' section of the boards of trade in the cities of Montreal and Toronto, respectively, shall be empowered respectively to represent the association in all matters connected with legislation in the legislatures of Quebec and Ontario, respectively—it being understood that the respective sections will, as fully as possible, keep the president and the executive council of the association advised on all points that may arise in connection with the matters referred to, and will not make representations in the name of the association contrary to the views of the executive council after such views have been expressed.

11. An editing committee appointed by the association shall supervise the publication of the "Journal of the Canadian Bankers' Association," and the executive council shall appoint such other officers as it may deem necessary; and shall also make such provisions and arrangements from time to time as it deems proper for lectures, discussions, competitive papers, and examinations.

12. The dues or subscriptions payable to the association by the members thereof shall be as follows:

For banks with a paid-up capital stock of under $1,000,000	$100
For banks with a paid-up capital stock of $1,000,000 and under $2,000,000	200
For banks with a paid-up capital stock of $2,000,000 and under $3,000,000	300
For banks with a paid-up capital stock of $3,000,000 and over	400

The dues or subscriptions payable to the association by the associates thereof shall be $1 annually. Members and associates' subscriptions shall be payable on or before the 1st February and 1st July, respectively, in each year.

CIRCULATION.

13. (*a*) A monthly return shall be made to the president of the Canadian Bankers' Association by all banks doing business in Canada, whether members of the Canadian Bankers' Association or not, in the form hereinafter set forth; said return shall be made up and sent in within the first fifteen days of each month, and shall exhibit the condition of the bank's note circulation on the last juridical day of the month next preceding; and every such monthly return shall be signed by the chief accountant or acting chief accountant and by the president or vice-president, or by any director of the bank, and by the general manager, cashier, or other chief executive officer of the bank at its chief place of business. Every such monthly return which shows therein notes destroyed during such month shall be accompanied by a certificate or certificates in the form hereinafter set forth, covering all the notes mentioned as destroyed in such return, signed by at least three of the directors of the bank, and by the chief executive officer or some officer of the bank acting for him, stating that the notes mentioned in such certificate or certificates have been destroyed in the presence of and under the supervision of the persons respectively signing such certificate or certificates, respectively.

FORM OF MONTHLY RETURN OF CIRCULATION ABOVE MENTIONED.

CIRCULATION STATEMENT OF THE (*here state name of bank*) *for the month of*_____, 190__

Credit balance of bank-note accounts on last day of preceding month (inclusive of unsigned notes)_____$

Add notes received from printers during month, viz:

From_____ $

From_____ $

Less notes destroyed during month (as per certificate herewith) ___

Balance of bank-note accounts on last day of month_____

Less notes on hand, viz:

Signed_____ $

Unsigned_____ $

Notes in circulation on last day of month_____

_____

Chief Accountant.

We declare that the foregoing return, to the best of our knowledge and belief, is correct, and shows truly and clearly the state and position of the note circulation of said bank during and on the last day of the period covered by such return.

_____ this _____ day of _____, 19__

_____

President.

_____

General Manager.

FORM OF CERTIFICATE OF DESTRUCTION OF NOTES ABOVE MENTIONED.

*Certificate of destruction of notes of the (here mention name of bank) accompanying monthly circulation statement for month of*_____A. D. 190__

We, the undersigned, hereby certify that we have examined bank notes of this bank amounting to $_____ consisting of the following, viz: (here set out the denominations) and have burned and destroyed the same, and that the said notes so burned and destroyed by us are not included in any other certificate of destruction of notes signed by us or any of us, or to the

best of our knowledge and belief by any other person, to accompany the present or any monthly circulation statement made or to be made to the president of the Canadian Bankers' Association.

---------- this ------ day of ------ 19--

Directors of Said Bank.

General Manager.

(*b*) For all purposes of this by-law, the chief place of business of the Bank of British North America shall be the chief office of the said bank at the city of Montreal, in the Province of Quebec.

And in the case of the said Bank of British North America the said monthly circulation return shall be signed by the general manager's clerk, or acting general manager's clerk, and by the general manager or the acting general manager of the said bank; and the said certificate of destruction of notes shall be signed by the general manager or acting general manager, the inspector or assistant inspector, and the local manager of the Montreal branch, or the acting local manager of the Montreal branch of the said bank, instead of by the persons respectively hereinbefore directed to sign the said returns respectively.

(*c*) Every bank which neglects to make up and send in as aforesaid any monthly return required by this by-law within the time by this by-law limited, shall incur a penalty of $50 for each and every day after the expiration of such time during which the bank neglects so to make up and send in such return.

(*d*) The executive council of the association shall have power, by resolution, at any time, to direct that an inspection shall be made of the circulation accounts of any bank by an officer or officers to be named in such resolution, and such inspection shall be made accordingly.

(*e*) Some person or persons appointed from time to time by the executive council of the association shall during the year 1901 and during every year thereafter make inspection of the circulation accounts of every bank doing business in Canada, whether members of the association or not, and shall report thereon to the council, and shall thereafter inspect the circulation accounts of each bank during each year; and upon every such inspection all and every the officers of the bank whose circulation account is so inspected shall give and afford to the officer or officers making the inspection all such information and assistance as he or they may require to enable him or them fully to inspect said circulation account, and to report to the council upon the same and upon the means adopted for the destruction of notes.

(*f*) The amount of all penalties imposed upon a bank for any violation of this by-law shall be recoverable and enforceable with costs, at the suit of the Canadian Bankers' Association, and such penalties shall belong to the Canadian Bankers' Association for the uses of the association.

(*g*) The president of the Canadian Bankers' Association shall each month have printed and forwarded to the chief executive officer of every bank of Canada subject to the bank act, whether a member of the association or not, a statement of the circulation returns of all the banks in Canada for the last preceding month, as received by him.

(*h*) In this by-law it is declared for greater certainty that the Canadian Bankers' Association herein mentioned and referred to is the association incorporated by special act of Parliament of Canada, 63 and 64 Vict., C. 93.

CURATOR.

14. Whenever any bank suspends payment, a curator, as mentioned in section 24 of the bank act amendment act, 1900, shall be appointed to supervise the affairs of such

bank. Such appointment shall be made in writing by the president of the association or by the person who, during a vacancy in the office of, or in the absence of, the president, may be acting as president of the association.

If a curator so appointed dies or resigns another curator may be appointed in his stead in the manner aforesaid.

The executive council may, by resolution, at any time remove a curator from office and appoint another person curator in his stead.

A curator so appointed shall have all the powers and subject to the provisions of by-law No. 15, shall perform all the duties imposed upon the curator by the said bank act amendment act; he shall also furnish all such returns and reports, and give all such information touching the affairs of the suspended bank as the president of the association or the executive council may require of him from time to time.

The remuneration of the curator for his services and his expenses and disbursements in connection with the discharge of his duties shall be fixed and determined from time to time by the executive council.

15. Whenever a bank suspends payment and a curator is accordingly appointed, the president shall also appoint a local advisory board consisting of three members, selected generally as far as possible from among the general managers, assistant general managers, cashiers, inspectors, or chief accountants, or branch managers of any bank at the place where the head office of such suspended bank is situated, and the curator shall advise from time to time with such advisory board, and it shall be his duty, before taking any important step in connection with his duties as curator, to obtain the approval of such advisory board thereto. With the sanction of such advisory board, he may employ such assistants as he may require for the full performance of his duties as curator.

CLEARING HOUSES.

16. The rules and regulations contained in this by-law are made in pursuance of the powers contained in the act to incorporate the Canadian Bankers' Association (63 and 64 Vict., C. 93, 1900), and shall be adopted by and shall be the rules and regulations governing all clearing houses now existing and established or that may be hereafter established.

Rules and regulations respecting clearing houses made in pursuance of the powers contained in the act to incorporate the Canadian Bankers' Association.

1. The chartered banks doing business in any city or town, or such of them as may desire to do so, may form themselves into a clearing house. Chartered banks thereafter establishing offices in such city or town may be admitted to the clearing house by a vote of the members.

2. The clearing house is established for the purpose of facilitating daily exchanges and settlements between banks. It shall not either directly or indirectly be used as a means of obtaining payment of any item, charge, or claim disputed or objected to. It is expressly agreed that any bank receiving exchanges through the clearing house shall have the same rights to return any item and to refuse to credit any sum which it would have had were the exchanges made directly between the banks concerned instead of through the clearing house; and nothing in these or any future rules, and nothing done, or omitted to be done thereunder, and no failure to comply therewith shall deprive a bank of any rights it might have possessed had such rules not been made, to return any item or refuse to credit any sum; and payment through the clearing house of any item, charge, or claim shall not deprive a bank of any right to recover back the amount so paid.

3. The annual meeting of the members shall be held on such day in each year and at such time and place as the members may fix by by-law. Special meetings may be called by the chairman or vice-chairman whenever it may be deemed necessary, and the chairman shall call a special meeting whenever requested to do so in writing by three or more members

4. At any meeting each member may be represented by one or more of its officers, but each bank shall have one vote only.

5. At every annual meeting there shall be elected by ballot a board of management, who shall hold office until the next annual meeting, and thereafter until their successors are appointed. They shall have the general oversight and management of the clearing house. They shall also deal with the expenses of the clearing house and the assessments made therefor. In the absence of any member of the board of management he may be represented by another officer of the bank of which he is an officer.

6. The board of management shall, at their first meeting after their appointment, elect, out of their own number, a chairman, a vice-chairman, and a secretary-treasurer, who shall perform the duties customarily appertaining to these offices.

The officers so selected shall be, respectively, the chairman, vice-chairman, and secretary-treasurer of the clearing house.

Should the bank of which the chairman is an officer be interested in any matter his powers and duties shall, with respect to such matter, be exercised by the vice-chairman, who shall also exercise the chairman's duties and powers in his absence.

7. Meetings of the board may be held at such times as the members of the same may determine. A special meeting shall be called by the secretary-treasurer on the written requisition of any member of the clearing house for the

consideration of any matter submitted by it, of which meeting twenty-four hours' notice shall be given, but if such meeting is for action under rules 15 or 16 it shall be called immediately.

8. The expenses of the clearing house shall be met by an equal assessment upon the members, to be made by the board of management.

9. Any bank may withdraw from the clearing house by giving notice, in writing, to the chairman or secretary-treasurer between the hours of 1 and 3 o'clock p. m. and paying its due proportion of expenses and obligations then due. Said retirement to take effect from the close of business of the day on which such notice is given. The other banks shall be promptly notified of such withdrawal.

10. The board of management shall arrange with a bank to act as clearing bank for the receipt and disbursement of balances due by and to the various banks, but such bank shall be responsible only for the moneys and funds actually received by it from the debtor banks, and for the distribution of the same amongst the creditor banks, on the presentation of the clearing-house certificates properly discharged. The clearing bank shall give receipts for balances received from the debtor banks. The board of management shall also arrange for an officer to act as manager of the clearing house from time to time, but not necessarily the same officer each day.

11. The hours for making the exchanges at the clearing house, for payment of the debit balances to the clearing bank, and for payment out of the balances due the creditor banks, shall be fixed by by-law under clause 17. On completion of the exchanges, the balances due to or by each bank shall be settled and declared by the clearing-house manager, and if the clearing statements are readjusted under the provisions of these rules, the balances must then be similarly declared settled, and the balances due by debtor banks must be paid into the clearing bank

at or during the hours fixed by by-law as aforesaid, provided that no credit balance, or portion thereof, shall be paid until all debit balances have been received by the clearing bank. At clearing houses where balances are payable in money they shall be paid in legal tender notes of large denominations.

At clearing houses where balances are payable by draft, should any settlement draft given to the clearing bank not be paid on presentation, the clearing bank shall at once notify, in writing, all the other banks of such default; and the amount of the unpaid drafts shall be repaid to the clearing bank by the banks whose clearances were against the defaulting bank on the day the unpaid draft was drawn, in proportion to such balances. The clearing bank shall collect the unpaid draft, and pay the same to the other banks in the above proportion. It is understood that the clearing bank is to be the agent of the associated banks, and to be liable only for moneys actually received by it.

Should any bank make default in paying to the clearing bank its debit balance, within the time fixed by this rule, such debit balance and interest thereon shall then be paid by the bank so in default to the chairman of the clearing house for the time being, and such chairman and his successor in office from time to time shall be a creditor of and entitled to recover the said debit balance, and interest thereon, from the defaulting bank. Such balances, when received by the said chairman or his successor in office, shall be paid by him to the clearing bank for the benefit of the banks entitled thereto.

12. In order that the clearing statements may not be unnecessarily interfered with, it is agreed that a bank objecting to any item delivered to it through the clearing house, or to any charge against it in the exchanges of the day, shall, before notifying the clearing-house manager of the objection, apply to the bank interested for payment

of the amount of the item or charge objected to, and such amount shall thereupon be immediately paid to the objecting bank. Should such payment not be made the objecting bank may notify the clearing-house manager of such objection and nonpayment, and he shall thereupon deduct the said amount from the settling sheets of the banks concerned, and readjust the clearing statements and declare the correct balances in conformity with the changes so made, provided that such notice shall be given at least half an hour before the earliest hour fixed by by-law, as provided in clause 11, for payment of the balances due to the creditor banks. But notwithstanding that the objecting bank may not have so notified the clearing-house manager, it shall be the duty under these rules of the bank interested to make such payment on demand therefor being made at any time up to 3 o'clock: *Provided, however*, That if the objection is based on the absence from the deposit of any parcel or of any check or other item entered on the deposit slip, notice of such absence shall have been given to the bank interested before 12 o'clock noon, the whole, however, subject to the provisions of rule No. 2.

13. All bank notes, checks, drafts, bills, and other items (hereafter referred to as "items") delivered through the clearing house to a bank in the exchanges of the day, shall be received by such bank as a trustee only, and not as its own property, to be held upon the following trust, namely, upon payment by such bank at the proper hour to the clearing bank of the balance (if any) against it, to retain such items freed from said trust; and in default of payment of such balance, to return immediately and before 12.30 p. m., the said items unmarked and unmutilated through the clearing house to the respective banks, and the fact that any item can not be so returned shall not relieve the bank from the obligation to return the re-

maining items, including the amount of the bank's own notes so delivered in trust.

Upon such default and return of said items each of the other banks shall immediately return all items which may have been received from the bank so in default, or pay the amount thereof to the defaulting bank through the clearing house. The items returned by the bank in default shall remain the property of the respective banks from which they were received, and the clearing-house manager shall adjust the settlement of balances anew.

A bank receiving through the clearing house such items as aforesaid shall be responsible for the proper carrying out of the trust upon which the same are received as aforesaid, and shall make good to the other banks, respectively, all loss and damage which may be suffered by the default in carrying out such trust.

14. In the event of any bank receiving exchanges through the clearing house making default in payment of its debit balance (if any) then, in lieu of its returning the items received by it as provided by rule 13, the board of management may require the banks to which the defaulting bank, or an account being taken of the exchanges of the day between it and the other banks, would be a debtor, in proportion to the amounts which, on such accounting, would be respectively due to them, to furnish the chairman of the clearing house, for the time being, with the amount of the balance due by the defaulting bank, and such amount shall be furnished accordingly, and shall be paid by the chairman to the clearing bank, which shall then pay over to the creditor banks the balances due to them in accordance with rule 11. The said funds for the chairman shall be furnished by being deposited in the clearing bank for the purpose aforesaid. The defaulting bank shall repay to the chairman for the time being, or to his successor in office, the amount of such debit balance

and interest thereon, and the said chairman, and his successor in office, shall be entitled to recover the same from the defaulting bank. Any moneys so recovered shall be held in trust for and deposited in the clearing bank for the benefit of the banks entitled thereto.

15. If a bank neglects or refuses to pay its debit balance to the clearing bank, and if such default be made not because of inability to pay, the board of management may direct that the exchanges for the day between the defaulting bank and each of the other banks be eliminated from the clearing-house statements and that the settlements upon such exchanges be made directly between the banks interested, and not through the clearing house. Upon such direction being given, the clearing-house manager shall comply therewith and adjust the settlement of balances anew, and the settlements of the exchanges so eliminated shall thereupon be made directly between the banks interested.

16. Should any case arise to which, in the opinion of the board of management, the foregoing rules are inapplicable, or in which their operation would be inequitable, the board shall have power at any time to suspend the clearings and settlements of the day; but immediately upon such suspension the board shall call a meeting of the members of the clearing house to take such measures as may be necessary.

17. Every clearing house now existing or that may hereafter be established may enact by-laws, rules, and regulations for the government of its members not inconsistent with these rules, and may fix therein, among other things:

1. The name of the clearing house.

2. The number of members of the board of management and the quorum thereof.

3. The date, time, and place for the annual meeting.

4. The mode of providing for the expenses of the clearing house.

5. The hours for making exchanges and for payment of the balances to or by the clearing bank.

6. The mode or medium in which balances are to be paid.

Any by-law, rule, or regulation passed or adopted under this clause may be amended at any meeting of the members, provided that not less than two weeks' notice of such meeting and of the proposed amendments has been given.

NOTICES.

17. Any notice of meeting, or any other notice authorized or required to be given to any member of the association, shall be deemed sufficiently given if sent through the post-office in a prepaid letter or by hand to the head office of any such member, addressed to such member or to the general manager or cashier of such member, and in the case of the Bank of British North America, through its chief office in the city of Montreal, addressed to it or to its general manager; and any notice sent by post shall be deemed to have been given on the day following that on which the same was mailed, and in proving the giving of such notice it shall be sufficient to prove that the letter was properly prepaid, addressed, and mailed.

Any notice authorized or required to be given to any member of the executive council may be sent by the secretary-treasurer by hand, or through the post-office, or by telegraph, or in any other manner which the said council may prescribe.

Any notice authorized or required to be given to any associate as such shall be sufficiently given if given by advertisement once in a newspaper in the cities of Montreal and Toronto.

18. In the foregoing by-laws, unless there be something in the subject or context inconsistent therewith, the words:

"The association" shall mean "The Canadian Bankers' Association," incorporated by special act of the Parliament of Canada (63 and 64 Vict., C. 93).

"The executive council," or "The council," shall mean "The executive council of the Canadian Bankers' Association."

Appendix VIII.

TABLE SHOWING BY YEARS THE CLEARINGS IN THE CLEARING HOUSES OF DIVERS CANADIAN CITIES, 1890-1908.

[$000.00 omitted.]

	1890.	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.	
1 Montreal	$473,985	$516,042	$590,043	$568,739	$546,606	$583,160	$527,858	$601,185	$731,264	$794,109	$734,941	$889,486	$1,089,976	$1,113,984	$1,065,067	$1,324,313	$1,513,537	$1,555,713	$1,407,316	1
2 Toronto	.....	.....	[a] 326,047	309,494	279,267	308,634	342,001	[b] 361,756	439,489	504,569	513,697	599,385	809,078	808,908	842,097	1,047,490	1 219,125	1 320,905	1,166,903	2
3 Hamilton	.....	.....	38,303	37,825	34,301	37,577	33,753	33,350	35,637	40,298	40,263	42,552	45,970	53,710	59,003	68,385	78,480	88,104	72,329	3
4 Halifax	62,281	64,601	59,136	60,104	58,778	61,078	61,237	63,736	62,523	70,600	17,594	87,148	88,532	93,349	90,115	89,251	91,837	93,587	90,222	4
5 Winnipeg	.....	.....	.....	[c] 4,974	50,602	55,872	64,146	84,435	90,754	107,786	106,956	134,199	188,370	246,108	294,601	369,868	504,585	599,667	614,111	5
6 St. Johns, New Brunswick	.....	.....	.....	.....	.....	.....	.....	30,468	30,349	32,628	37,907	40,941	42,405	49,013	51,875	52,836	69,112	66,150	66,435	6
7 Victoria, British Columbia	.....	.....	.....	.....	.....	.....	.....	.....	.....	33,506	32,038	30,607	26,680	30,817	33,070	36,890	45,615	55,330	55,356	7
8 Vancouver, British Columbia	.....	.....	.....	.....	.....	.....	.....	.....	.....	42,179	46,161	46,738	54,233	66,100	74,029	88,460	132,606	191,334	183,084	8
9 Ottawa	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	97,480	104,549	105,749	121,215	135,327	152,969	154,367	9
10 Quebec	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	70,707	80,432	74,502	86,189	91,618	107,544	121,812	10
11 London, Ontario	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	[d] 23,097	42,848	45,552	50,429	57,863	61,760	50,625 [e] 38,496 [f] 64,810	11
12 Total	536,266	580,643	1,013,530	976,263	969,557	1,046,323	1,028,997	1,174,710	1,390,019	1,625,680	1,589,360	1,871,061	2,539,864	2,689,823	2,735,604	3,335,530	3,950,701	4,142,405	4,142,114	12

[a] Bank of Toronto did not avail itself of the clearing house until 25th November, 1895.
[b] Quebec Bank withdrew 25th June, 1897, and reentered 1st November, 1900.
[c] December.
[d] From June, 1902, to end of January, 1903
[e] Edmonton
[f] Calgary

Appendix IX.

NUMBER OF BRANCHES OF CANADIAN BANKS ON DECEMBER 31, 1889-1908.

	1889.	1890.	1891.	1892.	1893.	1894.	1895.	1896.	1897.	1898.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.
Ontario	231	237	247	254	263	277	278	272	269	285	321	336	349	420	491	549	701	845	929	918
Quebec	60	77	94	94	102	103	115	112	114	128	123	123	137	147	183	196	246	270	297	311
New Brunswick	32	31	32	30	29	31	31	31	31	31	34	34	35	41	47	49	50	54	55	58
Nova Scotia	47	48	51	53	58	62	62	64	69	70	74	85	89	101	99	101	100	106	104	104
Prince Edward Island	6	6	6	6	6	6	6	7	8	8	9	10	9	7	11	10	11	14	14	16
British Columbia	9	9	9	10	12	17	13	16	24	36	41	48	46	52	50	55	66	78	90	103
Manitoba	13	14	21	24	24	19	20	22	29	46	50	50	52	79	87	95	127	166	163	162
Northwest Territories	4	4	8	8	8	8	8	9	11	16	19	19	30	54	78	87	150	209	231	252
Yukon										2	2	3	3	3	3	3	3	3	3	3
All Canada	402	426	468	479	502	543	530	533	555	623	663	708	750	904	1,049	1,145	1,454	1,745	1,886	1,927

61ST CONGRESS } SENATE { DOCUMENT
2d Session } { No. 584

NATIONAL MONETARY COMMISSION

Interviews on the Banking and Currency Systems of Canada

BY

A Subcommittee of the National Monetary Commission

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INTERVIEWS ON THE BANKING AND CURRENCY SYSTEMS OF CANADA.

By a subcommittee of the National Monetary Commission:

HON. EDWARD B. VREELAND, Chairman.

HON. JOHN W. WEEKS. HON. ROBERT W. BONYNGE.

The committee was accompanied by Mr. Clifford Hubbell, cashier of the Marine National Bank, Buffalo, N. Y.

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BANK OF NOVA SCOTIA.

Seventy-seventh general statement as at December 31, 1908.

ASSETS.			LIABILITIES.		
Specie	$2,399,623.44		Deposits not bearing interest	$6,418,908.81	
Dominion notes, legal tenders	2,598,022.25		Deposits bearing interest	24,667,959.23	
Notes of and checks on other banks	1,865,707.69		Interest accrued on deposits	131,230.93	
Due from other banks in Canada	574.94				$31,218,098.97
Due from other banks in foreign countries	1,953,006.11		Deposits by other banks in Canada	242,339.96	
Sterling exchange	1,218,349.73		Deposits by other banks in United Kingdom	21,864.57	
	10,035,284.16		Deposits by other banks in foreign countries	691,155.88	
Investments (provincial, municipal, and other bonds)	6,699,958.95				955,360.41
Call loans, secured by bonds, debentures, and stocks	6,391,511.01		Notes in circulation	2,888,974.89	
Call loans secured by grain and other staple commodities	3,675,727.67		Drafts drawn between branches outstanding	923,476.26	
		$26,802,481.79			3,812,451.15
Deposits with Dominion government for security of note circulation	151,236.81		Capital paid up	3,000,000.00	
Loans to provinces and municipalities	338,341.13		Reserve fund	5,400,000.00	
Current loans secured by bonds, debentures, and stocks	1,099,509.41		Reserve fund for loss in liquidating insolvent banks	100,000.00	
Current loans secured by grain and other staple commodities	1,183,780.25		Profit and loss, balance carried to 1909	55,741.78	
Overdrafts, secured	159,295.63		Rebate of interest at 6 per cent on time loans	114,560.72	
Overdrafts, authorized but not specially secured	88,738.37		Dividend warrants outstanding	435.00	
Notes and bills discounted and current	13,436,121.15		Dividend No. 156, payable January 2, 1909	90,000.00	
Notes and bills overdue	714.35				8,760,737.50
Advances to the sovereign bank of Canada in connection with its liquidation	613,860.18				
Bank premises	850,409.48				
Stationery department	22,159.48				
		17,944,166.24			
		44,746,648.03			44,746,648.03

NOTE.—A contingent liability of $200,000, in conjunction with several other banks in connection with the liquidation of the Ontario Bank, is not fully expressed in the above statement.

The latest return from Mandeville, Jamaica, is dated December 23, 1908, and the figures thereof are incorporated herein.

Interview with Henry C. McLeod, general manager of the Bank of Nova Scotia.

By Mr. VREELAND:

Q. What is your position?

A. I am general manager of the Bank of Nova Scotia.

Q. Are you located here?

A. I am located here.

Q. Where is the home office of your bank?

A. The home office is at Halifax; the executive is here.

Q. You would regard this as a better point from which to view the whole field than the home office, Halifax?

A. It is more central.

Q. Is it the practice of any of the other banks to have managers resident near the center of business?

A. No; it is not a general practice. We have interests in the West, interests in the United States, and it was found that Halifax was a point from which it was rather difficult to communicate promptly with some of the larger branches.

By Mr. WEEKS:

Q. Being the Bank of Nova Scotia, you would be bound to have your main office in Nova Scotia?

A. There is a sentiment of that kind.

By Mr. HUBBELL:

Q. You are not legally bound to do so?

A. No; we are not obliged to. We could apply to Parliament and have the head office transferred to Toronto, if it were so desired.

By Mr. VREELAND:

Q. I was going to ask you a few questions with regard to the general banking laws; have you had occasion to give them any special attention, Mr. McLeod?

A. Not much more than the ordinary attention of a banker operating under them.

Q. The first general act, Mr. McLeod, relating to the banks of Canada seems to have passed in 1870 and 1871.

A. That is the first general act governing the banks of the whole country, with the exception of a temporary extension of the powers already granted by provincial charters; the extending act was passed in 1868.

Q. Each bank, as I understand, was chartered separately by the provinces before that.

A. Yes; by the provinces.

Q. When were the general amendments made to the act of 1871?

A. There were amendments made in 1873 and in 1875. In 1880 the act was revised and extended. In 1883 there was a small amendment, and in 1890 the act was revised and extended. The act was amended and extended in 1900.

Q. I notice that there seems to be some difference in the language of the law as applied to the Bank of British North America; do you know the cause for that? The amount of its circulation seems to be specified separately, and the provisions of the law that apply to it are separate.

A. The Bank of British North America has its head office in England, and there is no double liability; that

bank is therefore allowed to issue a less amount of circulation.

Q. Three-fourths of capital?

A. Three-fourths.

Q. Was that bank chartered in England?

A. It is chartered in England, and is mentioned in the Canadian bank act as one of the banks to which the act applies.

Q. The law—that is, your general Dominion law—makes detailed provision for organizing banks, as regards public notice, the opening of stock books, and all such items of management; what then is the final step? Does the right to authorize the actual opening of a bank lie with the Dominion government or finance minister or your council?

A. That is dealt with by the treasury board. The treasury board gives the final decision.

Q. Of which the finance minister is chairman?

A. Yes.

Q. It does not have to go to the Canadian parliament for ratification?

A. The charter is given by the Canadian government first and the treasury board passes upon the qualifications. The treasury board has to see that the requirements in regard to paid-up capital are carried out. But a new bank desiring to open its doors or to get a charter has first to make an application to the Dominion parliament.

Q. I had an idea that you had what we call free banking here now; in other words, that no special legislative act was necessary, but that any bank might open after complying with provisions of a general law.

A. No.

Q. They still have first to get a charter from the parliament?

A. They have first to apply to parliament for a charter, and then the question arises whether they are entitled to get a charter.

Q. How would that be determined? Suppose they complied with the requirements as to capital and all the other features of the law, would it be granted as a matter of course?

A. It would be granted as a matter of course.

Q. I notice that the number of your banks is much smaller than twenty-five years ago.

A. Yes.

Q. The number of chartered banks is 31 now?

A. I think about 29 at present.

Q. Here is the last statement of banks acting under charter for the month of July, 1909. It seems to figure up 31, and the Sovereign is included in that.

A. Yes; that is a failed bank, and I think there are one or two others.

Q. The Sovereign is the only one. I do not think the Ontario is included.

A. There are two there, Mr. Vreeland. The St. Hyacinthe and the Sovereign.

Q. What was the other?

A. The St. Hyacinthe; so there are 29 doing business.

Q. Have any applications for charters been refused within the last ten years that you know of?

A. I can not recall that any applications have been refused.

Q. How do the present chartered banks look upon it? Do they look with favor upon new banks, or do they think it is better to permit the old ones to grow and establish branches and become strong in that way?

A. They do not look with disfavor on a new bank that is started under proper auspices. The cause of the decline in number is the amalgamation of banks and the failure of banks. We have had a good many failures.

By Mr. WEEKS:

Q. Will you state how many in ten years; do you recall?

A. I can not give you the number for ten years, but I wrote a short letter on the subject some three years ago comparing the resulting failures of our system with yours.

By Mr. VREELAND:

Q. It was based upon the number started?

A. Yes. The failures in the United States were 5 per cent. Taking Canada from the year 1880 up to the date of my letter the failures were 25 per cent. Up to the present from the same date the percentage is 30 per cent.

By Mr. HUBBELL:

Q. That is the number of head offices, is it not?

A. Number of banks.

Q. You do not include the branches?

A. No; we do not include the branches.

By Mr. WEEKS:

Q. The casualties among Canadian banks have been, numerically, five times as great as among the United States national banks?

A. I wrote the article urging outside inspection of banks, and of course the letter made the case as strong

as possible, but the facts as stated are correct nevertheless. Since then we have had three more failures.

By Mr. BONYNGE:

Q. That is, since 1906?

A. Since October, 1906; since the date of my letter.

Q. What banks have failed since that time?

A. The Sovereign, the Banque de St. Hyacinthe, and Banque St. Jean.

Q. Which was the largest of those three banks?

A. The Sovereign.

Q. What was its original capital?

A. It commenced business in May, 1902, with $1,300,000, issued at 125.

Q. How much capital had it when it got into trouble?

A. Its capital was $4,000,000, at the highest point, according to the books and statements.

Q. How much of it paid in?

A. All paid in, and all lost, with a good deal more, in that short time.

Q. You are familiar with the circumstances of its failure?

A. Yes.

Q. Would you object to stating?

A. Bad management—corrupt management.

Q. Corrupt management?

A. Yes; false returns. That is true of the Ontario bank as well.

Q. How long was the Ontario bank in operation?

A. The Ontario bank was started in 1856, and was probably insolvent for forty years before its failure.

By Mr. VREELAND:

Q. I notice in the record of regulations of banks that the amount of discounts and loans to directors or firms in which they are interested is fixed by your by-laws. The Dominion laws do not cover liabilities and loans?

A. There is no limit.

Q. To either directors or anyone else?

A. No.

Q. So if there are any regulations of that kind they are in the by-laws of the institution?

A. By-laws are seldom published, so that any limit is practically a dead letter.

Q. I notice that the law provides that the business of banks shall be managed by a board of directors. I wish you to tell us, Mr. McLeod, to what extent the board of directors actually manages your banks? We have a good deal of discussion on that point in the States.

A. The directors supervise. They do not initiate business, and seldom pass upon it before it is transacted. The method is, we furnish our directors with the inspection reports of the branches as soon as they are made. We furnish them with a report every year by every manager on any loan or liability of the bank that amounts to a thousand dollars. That is, we have special reports. These reports come in from the branches with a report on each loan by each manager, and they are bound into volumes and sent, after they are examined by my department, to our directors. So that they have full information about all loans in the bank. They have this statement on the 31st of March for every year, showing every

loan we have, full particulars, statement of the borrowers, etc. Then, in addition, we have the inspectors' report; so that they are as fully informed as they well can be with regard to loans.

Q. That would hardly be management?

A. It is supervision.

Q. After the event?

A. After the event.

Q. As a matter of fact, about the same as with us, the directors do not initiate and they do not to any extent make regulations under which the officers of the bank shall act?

A. They made regulations.

Q. That is their by-laws?

A. The general management, as a rule, suggests the regulations and they are submitted to the board for approval. Appointment of officers, and all that, lies with the general management, subject to confirmation by the board. I shall be pleased to give you a copy of our book of regulations if it would be of interest to you.

Mr. VREELAND. I shall be very glad to have it.

By Mr. BONYNGE:

Q. The book of regulations for your own bank?

A. The book of regulations for our own bank.

By Mr. VREELAND:

Q. There are a few points upon which I wish to get the practical information of bankers. How many kinds of banks? You have your commercial banks, and you have some savings banks separate from your savings departments and commercial?

A. Very few savings banks.

Q. Those are all government?

A. No; they are not all government. There are a few trust companies, and a few savings and loan companies, and there are one or two savings banks.

Q. Then you have trust companies?

A. Yes.

Q. Do you have what you may call mortgage banks separate from trust companies or loan companies?

A. Yes, we have mortgage and savings companies.

Q. You have the postal banks?

A. Yes; government banks.

Q. Have you any private banks?

A. Very few.

Q. You have them?

A. Yes; but they are so few in number now as not to cut any figure.

Q. Your savings banks—there are more than two government savings banks left here?

A. The government savings banks now consist mainly of the postal savings bank. There are government savings banks in the lower provinces.

Q. Just the savings banks that are left from the time when the Province had charge of the banking laws?

A. Yes.

By Mr. BONYNGE:

Q. Is there any general law for the organization of savings banks?

A. No; the City and District Savings Bank of Montreal and the La Caisse d'Economie are the most important savings banks we have.

By Mr. VREELAND:

Q. When did they get their charters?

A. Before 1850.

Q. Do they have capital stock?

A. Yes.

Q. Who owns the stock—general subscribers?

A. General stockholders.

Q. Do you know anything about any special limitations upon that bank which do not apply to the commercial banks?

A. Not at the moment.

Q. As to the investment of funds?

A. I can not recall those limitations at present.

Q. Tell us about your trust companies.

A. Our trust companies are very much of the same order as yours.

Q. They receive?

A. A provincial charter generally.

Q. They have to apply for a special charter?

A. Yes.

Q. They are not permitted to do commercial business? They do not discount commercial paper?

A. I think there is nothing to forbid that.

Q. You say that you have mortgage banks separate from your trust banks?

A. Mortgage and loan companies.

Q. Corresponding somewhat to our savings and loan associations?

A. I could not answer that. I could not say that they are similar, but we have some mortgage and loan companies.

Q. You think 31 is the correct number of chartered banks?

A. Twenty-nine in actual active business.

Q. As to the number of other banks—of savings banks, and trust companies, that is other forms of banks—you have not the figures?

A. Postal savings banks 1,084 at the close of 1908. Dominion government savings banks 18 at the end of March, 1908.

Q. If possible, we should like to have the number of banks that have failed of each kind.

A. Sixteen chartered banks since 1880.

Q. And the losses to noteholders, if any, and depositors, if any.

A. Practically no loss to noteholders; depositors lost about $3,000,000.

Q. I suppose that, where the chartered bank association takes over a bank and liquidates it and sustains the loss, information is not given freely as to what the loss is?

A. Knowledge of the loss would be available.

Q. The bankers usually say there is no loss at all?

A. When they take over a bank?

Q. Yes; they never undit a loss.

A. I am inclined to take exception to that. We have had painful demonstrations that losses do occur through assisting banks even in your country.

Q. They have plenty of losses, but I say the bankers concerned very seldom admit publicly there are any losses. I suppose note holders have never had a loss?

A. Yes, they have losses. Not, I, think since 1890. Prior to that there were losses.

By Mr. BONYNGE:

Q. In 1890 was there any change in the law?

A. Yes; the banks became joint guarantors of circulation.

Q. That is when the fund was created?

A. Yes; when the fund was provided for.

By Mr. VREELAND:

Q. What reports are the commercial banks legally required to make now?

A. They report once a month.

Q. Is that report published?

A. That report is published by the government and by the leading financial papers.

Q. Have you a copy of your last report?

A. Not with me. I can give you a copy. You mean the government report of all the banks?

Q. The annual published report of your bank?

A. Yes; I will furnish you with one. You have the form of government report before you. That is a monthly report.

Q. The report of the government?

A. Yes.

Q. It is not published?

A. Yes.

Q. But it is published in bulk—all of them together?

A. With particulars.

Q. I mean each bank.

A. No.

Q. There is no examination of any kind made by the government, Mr. McLeod?

A. None whatever.

Q. What examination of these banks is made by the banks themselves or by the association?

A. No examination is made by the association other than to verify the figures of circulation. The banks have inspectors that inspect the branches, but there is no independent examiner to inspect the general management. The general manager is practically supreme in so far as the accounts of the bank are concerned. The directors supervise the general manager, but directors in Canada are the same as they are in your country.

Q. The directors look at the end of the year?

A. They are not posted in detail.

Q. Is it customary for the by-laws of the bank to expose any limitation upon the size of loans to any individual?

A. No; it is not customary.

Q. All of the savings banks that you have here are capitalized?

A. The savings banks?

Q. Yes.

A. The savings banks we have in Canada outside of the chartered banks, the commercial banks, do not cut any considerable figure in the business of Canada, and I think you may almost eliminate them from consideration in that connection.

Q. And to organize any class of bank application must be made to parliament for a charter?

A. Yes.

Q. In each specific case?

A. In each specific case.

By Mr. BONYNGE:

Q. All the chartered banks have savings accounts?

A. I think so.

Q. Do they make any difference in the manner in which they treat the deposits in the savings account and the commercial deposits?

A. None whatever.

Q. There are no rules or regulations governing the investment of savings accounts?

A. No; there are not any regulations or restrictions.

By Mr. WEEKS:

Q. Do you think that is wise?

A. From the experience of Canadian banks with such accounts I do not see any objections. We find savings depositors no more dangerous in regard to sudden withdrawals than ordinary commercial depositors.

By Mr. VREELAND:

Q. You mean savings deposits?

A. Savings deposits.

Q. But the general rule is, is it not, to have time notice for a withdrawal in your savings accounts?

A. That is the rule, but not the practice. Withdrawals are made without notice.

Q. But under the law you have the right, in case of need, to put on the time notice?

A. I am in doubt about that, so much so that we publish our savings deposits as payable on demand.

Q. From the general statement it would seem that about two-thirds of the deposits in Canada are time deposits.

A. The banks generally treat savings deposits as payable after notice. We treat our deposits on savings account as payable on demand. If a depositor wants to draw a check against a savings account, we very seldom call him to task for drawing the check.

Q. Is that the general practice?

A. That is the general practice. And where we make the practice of paying checks against savings accounts I think it would not be open to us some morning to notify the depositor that his account was payable after notice instead of on demand.

Q. What form of certificate or paper do you give to a customer upon a savings time deposit?

A. We give him a savings deposit book with information and regulations printed on the cover. Most banks include a regulation requiring ten or fifteen days' notice of withdrawals.

Q. Is that the usual notice for time deposits?

A. Mr. Vreeland spoke of savings deposits; these are deposit receipts as well, and deposit receipts are issued payable after notice. As a rule, we pay those without notice, but they are undoubtedly subject to notice if the bank asks for notice. The great bulk of savings in Canada is on the savings deposit with the pass-book system I speak of.

By Mr. BONYNGE:

Q. What proportion of deposits in the bank are savings deposits?

A. I should suppose that about 70 per cent were savings deposits.

Q. Seventy per cent of the total deposits?

A. Yes; that percentage would include savings deposits and deposit receipts.

Q. And time deposits?

A. What you call a time certificate.

Q. Can you give the proportion of time deposits as distinguished from savings deposits?

A. I think I could give that from that return that you have there.

By Mr. VREELAND:

Q. It makes a distinction between demand deposits, twenty-two millions altogether, and deposits for which notice is required, four hundred and sixty-six.

A. The deposits of the Bank of Nova Scotia subject to notice in Canada are $6,944,000; then we have deposits outside that——

Q. That is, in your bank?

A. That is in our bank. I was speaking of deposits elsewhere than in Canada. I presume we would have about $10,000,000 subject to notice, and we have deposits by the public payable on demand in Canada, including the savings deposits, $18,234,000; then we have a little over $8,000,000 outside of Canada.

By Mr. BONYNGE:

Q. You pay the same interest on time deposits as on savings deposits?

A. The same interest.

Q. What rate of interest?

A. Three per cent.

By Mr. VREELAND:

Q. Do any chartered savings banks in Canada pay 4 per cent interest?

A. Not that I know of. Some of the chartered banks pay a higher rate of interest on time deposits, but that is against the agreement with the other banks—in violation of the agreement.

By Mr. BONYNGE:

Q. You have an agreement between all the chartered banks as to the interest that you shall pay on deposits?

A. We have.

By Mr. WEEKS:

Q. Mr. McLeod, in your judgment, does the postal savings bank system work so that it gives good results to the government—to the people?

A. Well, I do not think it gives good results either to the government or to the people. I think the commercial banks would serve the people better if there were no postal savings banks.

Q. I understand there are about $50,000,000 of deposits?

A. I have forgotten the figures.

Q. Is it true that this money is used as a current receipt by the government?

A. Yes.

Q. Do you think that is a wise governmental provision?

A. There are no reserves kept against these deposits.

Q. None whatever?

A. No; there are reserves kept against the legal-tender notes, or government notes, but not against the postal deposits.

Q. Do you think that that system could be changed to suit your conditions so it would be of material advantage to the people of Canada?

A. I have not studied the matter closely, but I think there is always a danger in the government handling the savings, particularly in the matter of reserves. There are never adequate reserves kept. That is the experience in England. The postal savings in England are inadequately protected by reserves.

Q. Do you know whether these deposits come largely from places where there are no banks, or from the country generally?

A. They come from the country generally. There is always a percentage of people that prefer the government to a bank.

Q. What is the rate of interest paid?

A. Three per cent.

Q. From the date of deposit?

A. From the end of the month on which the deposit is made.

Q. Suppose the rate of interest which banks paid were 4 per cent and the government paid 1 per cent on postal deposits, do you think there would be any material postal deposits under those circumstances?

A. No; I do not.

Q. Do you think there would be any danger of people in time of distress withdrawing the money from the banks and depositing in postal savings banks under those circumstances?

A. Yes; then there would be, but I think our people are wonderfully quiet under disturbed conditions.

Q. If that were the case it would simply add to the distress rather than lessen it, wouldn't it?

A. Yes.

By Mr. BONYNGE:

Q. Have the deposits of postal savings banks been increasing in recent years or decreasing?

A. I think they have been remaining about the same. I have not compared the figures with recent years.

Mr. KNIGHT. They are not increasing.

By Mr. VREELAND:

Q. What year were the postal banks established?

A. The postal banks have been in existence, I think, ever since confederation.

Q. That was 1867, was it?

A. About that time.

Q. Do you know how many postal banks there are now? I suppose, however, that the moneys are received at the post-office.

A. Yes.

Q. How many post-offices receive money for the postal fund?

A. Ten hundred and eighty-four.

Q. When they were started I notice 4 per cent interest was paid, then it was reduced to 3½ per cent, and is now 3 per cent?

A. Yes.

Q. I assume that, when the interest was above the rate payable among the banks, the bank rate would naturally grow in order still to attract deposits?

A. Yes; the banks paid about 4 per cent, I think, at that time. The banks would have to pay the same as the government.

Q. You found yourself obliged to pay the same interest as the government?

A. Yes; when we went below the interest paid by the government our deposits would fall off very materially.

Q. Do you know what class of people use the postal funds mostly?

A. All classes.

Q. Don't they have postal offices in the rural places of the country where you do not have branches of banks?

A. In some cases, I think.

Mr. KNIGHT. I do not think there is a case, Mr. McLeod. I can not recall a place in Nova Scotia.

Mr. MCLEOD. The postal savings banks were not established in Nova Scotia until very recent years. I do not know how many there are now.

Q. You must have post-offices in a great number of small communities where there are no branches of banks?

Mr. KNIGHT. No; there would not be a savings bank there.

By Mr. WEEKS:

Q. You remember there were some government savings banks and not postal-savings banks?

A. In the upper provinces they had the postal banks instead of the savings banks. Recently there has been a change, they have been withdrawing the regular savings banks and establishing a post-office bank instead.

By Mr. VREELAND:

Q. The post-office here receives funds for the postal savings bank?

A. I think so, although I could not answer you definitely on that point.

Q. As to competition for the business, Mr. McLeod, you think it is not increasing?

A. No, it is not increasing. The country is progressing very rapidly and the banking business of the country is increasing, and the government deposits are not increasing. They are remaining about stationary.

Q. The rate that your commercial banks pay as fixed by your association is 3 per cent?

A. Three per cent.

Q. And are there any of the banks that refuse to accede to the general agreement?

A. No; not at present.

By Mr. BONYNGE:

Q. Do any of the banks pay in excess of the amount agreed upon?

A. I think not.

Mr. VREELAND. Our report here shows the Northern Crown Bank refused to come in under the agreement; how is that, Mr. Knight? You are the secretary.

Mr. KNIGHT. May I ask you a question?

Mr. VREELAND. Yes.

Mr. KNIGHT. Whence do you get that information?

Mr. VREELAND. That is a report we had made by a man who looked over the banking system very carefully, and that information was given to him by some of your bankers.

Mr. KNIGHT. I would not act upon it. You can not keep a man straight by an act of violence. If a man enters into an understanding with you and violates an agreement, it is of no use to introduce an isolated case like that as an indication what the system is.

Mr. VREELAND. It is very natural to inquire, Mr. Knight, how well the agreements of the association can be kept, and whether there are violations of them.

Mr. KNIGHT. Admirable; the Northern Crown is a new bank—comparatively new. It is the result of the union of two new banks, one of them the Northern Bank and the other the Crown Bank, which were managed by brothers; both of those men are now out of the bank and another man has the management of it. At the time that the Northern was run in I understand its branches through the northwest agreed to conform to the understanding with the other chartered banks. In the center, Winnipeg, they said they would not bind themselves in the dilapidated places all over the West, and they probably gathered some thousands of deposits by offering 3½ per cent, or something like that. That is the plain story.

Mr. MCLEOD. It is simply a breach of agreement.

Mr. KNIGHT: That is a question of management. It has nothing to do with the system. The system is all right. It is like quarreling with the bank act. There is no quarreling with the bank act. The general manager is able to control affairs and do as he pleases without any supervision whatever. That is not a fault of the act.

Mr. COULSON. Banks are clearing houses and have clearing-house agreements and understandings with regard

to rates, but occasionally those rates are broken. Sometimes an inspection will show a reason for departure from the rate, but in the great majority of cases—I should say ninety-nine out of a hundred, speaking of chartered banks and chartered managers—the agreements are kept. There are a few exceptions.

Mr. VREELAND. I should say they were very generally kept, in fact in a remarkable degree.

Mr. MCLEOD. And with regard to the management, and the general manager becoming supreme, that is with us much as it is with you. You generally have in each bank one supreme head. I think it is well it should be so.

By Mr. VREELAND:

Q. Do you know the total number of branches in Canada?

A. I have not the figures.

Q. You do not have to pay in any additional capital for additional branches?

A. No.

Q. That is entirely within the province of the bank to determine?

A. Yes.

Q. Whether they increase their capital or not?

A. Yes.

Q. Deposits are kept at the head office as a rule, are they?

A. No, deposits are left at the branch. That is, the accounts of deposits, but we have some branches that practically are all deposits. There are branches that are practically all loans, and, of course, we draw the deposits

from the branch that has no loans and give them to the branch that has loans and no deposits.

Q. Then the transfer of all loans or deposits from branches where they have no loans would give the head office an opportunity to send them wherever they would be needed?

A. In accounting only.

Q. The actual transfer of money?

A. Need not take place.

Q. Would not take place at all?

A. No. In fact at the head office we never keep any money. It is only accounts. We are merely a transfer station.

Q. The powers of your branch managers, I suppose, depend upon the size of the branch and upon the manager himself?

A. Exactly; mainly on the capacity of the manager.

Q. As a rule, at the small points they have authority to make loans of about $1,000 or less without reporting to the home office?

A. That would be about it.

Q. And other points perhaps $5,000?

A. Yes; and with a successful manager the limit is very much larger, perhaps $25,000 or $50,000 or $100,000 to regular customers, but those things are regulated from day to day. If we have a good customer, a man that has kept his account with us for a good many years, and transactions have always been satisfactory, our manager knows quite well how far he may go with that individual. Loans to him might not be referred or approved

before they are made, but the report is made immediately afterwards, and if we fail to approve we telegraph or write.

Q. How are managers selected? I suppose you grow them, do you not, in the older banks?

A. We grow them. They are selected by competition really. We endeavor to give the best man the best place.

Q. You mean competition between your own managers; if there is a removal, a promotion would be made?

A. The best man gets it.

Q. You select, then, a man who you think will fill the place; as you think, the best man?

A. Yes; if they have a good man in the management of a small branch, and there is a vacancy in a larger one, he is moved up a peg.

Q. How nearly are your rates of discount uniform among branches? Depends something upon the country, I suppose?

A. The rates are fairly uniform at 6 per cent.

Q. Rates of interest are fairly uniform at 3 per cent?

A. Rates of interest on time deposits are uniform at 3 per cent.

Q. And rates of discount are fairly uniform, you think, at 6 per cent?

A. At places.

Q. Aren't rates of discount much higher in places in the wheat country that is opening up in the west than in Ontario?

A. In some cases they are as high as seven, and I believe, with some banks, eight.

Q. Do rates of exchange go up accordingly? I suppose the deposits are small?

A. The deposits are the same—3 per cent. I think we would take, speaking of ourselves, an account at Vancouver on the same terms we would take an account at Toronto and where the interest is 7 per cent and 8 per cent. These rates are applied to small loans, and for our own bank I do not think we have a loan at 8 per cent in the west. We adhere to the legal rate of 7 per cent.

Q. In small communities, where there is only one branch, rates might be a little higher?

A. Yes; that would apply to the eastern country as well.

Q. To what extent is there competition among branches; how do they compete? Your rates of interest and your rates of discount are about the same, I see. How do you compete? What are the inducements that you offer for new business?

A. Each bank is competing with the other for a share of the business as much as two grocery stores compete for a share of business in that section. One has nothing better to offer than the other, perhaps. It is generally a case of personal popularity of the local manager and the influence.

Q. Do not these branches sometimes get business by offering increased inducements, free exchange?

A. Quite often.

Q. Do they not have some leaders to locate the custom?

A. Yes.

Q. They go to the customers?

A. That is quite true.

Q. But as a rule the amount of business is determined by the popularity of the people running the bank and its reputation?

A. Yes.

Q. All those things?

A. Yes.

Q. And not by better rates of interest or lower rates of discount?

A. As a rule it is the former influences that govern.

Q. What sized towns would you consider entitled to one or more branch banks?

A. We would consider a town with a thousand people entitled to a branch bank.

Q. Would there be likely to be more than one branch in a town of that size unless they had some special business?

A. In some places there are three or four.

Q. There would be some special reason—a large business of some kind, that is a center of grain shipments, or something of that kind?

A. It is more often a case of some bank putting in a branch and the other banks going in to protect the accounts they have in that section. There are places with not more than 250 inhabitants with one or more banks.

Q. There was some special reason?

A. No other reason than the reason I give, that some bank has started in there to cut off another bank from some of its business, and rather than lose its business the other has gone in and established an office.

Q. What amount of deposits would you say justified a branch bank?

A. About $200,000 to $250,000 of deposits.

Q. In these small villages you speak of you would not expect to get that amount?

A. Sometimes we do. We might start in and it might be a year or two before we reached even a hundred thousand deposits, but they gradually grow until we might have $200,000 or $300,000 or $400,000 in a surprisingly small place.

By Mr. BONYNGE:

Q. You have some branches where you have no deposits?

A. No; there are no branches where there are no deposits. There are branches where we have very small deposits, so small that they might, perhaps, be almost negligible.

Q. I thought you spoke some time ago of branches that had simply loans and no deposits?

A. That was practically all loans and practically no deposits, while another might have practically all deposits and practically no loans.

By Mr. VREELAND:

Q. In the business of a central bank like the Bank of England changes are made from time to time in the rates of discount. Is that done by your association?

A. The association does not deal with rates of discount or commissions.

Q. They deal only with rates of interest on deposits?

A. Rates of interest on deposits are fixed practically by association.

Q. I should think that would be a fruitful field for competition among the banks.

A. I do not think it would be well to have competition shut off by agreement.

Q. Is there, as a matter of fact, a difference in rates offered by the banks on discounts?

A. Not a very great difference. If a bank finds it has more money than it should have it might possibly go down to 5 per cent. We have several accounts at 5 per cent, and I know some of our neighbors have the same.

Q. Then for good accounts the rates of discount would be quite an element in attracting custom?

A. Yes; quite an element.

Q. But you say that there is no understanding in your association as to rates of discount.

A. Absolutely no understanding either on those or on rates of commission.

Q. Rates of commission?

A. Absolutely no understanding.

Q. Commission upon what?

A. On collections and domestic exchange.

Q. Inasmuch as that is all left open?

A. And foreign exchange as well. There might be some understandings by banks in certain sections of the country as to rates of exchange, but there are no understandings of that kind within the association.

Q. You have two classes of deposits in the commercial banks; that is, your current deposits and current accounts that are subject to check?

A. Yes.

Q. And your deposit accounts that are upon time and upon which interest is paid?

A. Yes.

Q. You have those two general divisions?

A. Yes.

Q. Is interest paid upon current accounts?

A. Rarely.

Q. Checking accounts?

A. Rarely.

Q. It is to some extent?

A. It is to some extent.

Q. In what portions, or in what cities, or in the rural districts?

A. Mostly in the cities.

Q. Upon what is that based, upon monthly balances?

A. Generally on a monthly balance.

Q. What is the ordinary rate, the same as other interest rates, or smaller?

A. A lower rate, generally 2 or 2½ per cent.

Q. How often is that changed by the association?

A. That is not dealt with by the association.

Q. Then your understanding relates merely to time deposits?

A. What they call time deposits.

Q. And not current deposits?

A. Yes; we could pay 3 per cent on our current deposits if we wished to do so. I must say that the practice of paying interest on current accounts is not general to the same extent as it is in your country. We very rarely have an account. It is very rare.

Mr. KNIGHT. I do not think there is one case in a thousand of a current account.

Mr. MCLEOD. I think I should be well within the truth in saying that we do not pay interest on 1 per cent of our current accounts.

Q. According to your statement to the Government here, about two-thirds of the deposits are put down as drawing interest. About two-thirds are put down as being subject to notice, that means interest, I suppose, in all those accounts, or most of them?

A. Yes.

Q. Of the other third, a large proportion, of course, would consist of current accounts. Since interest is paid on them also, that brings the proportion of your total deposits upon which interest is paid up to much more than two-thirds?

A. Yes; it would bring it up.

Q. I suppose it would be a mere guess as to the percentage?

A. Yes; for our own bank I can give you actual figures.

Q. Would you mind giving them?

A. I will give you our annual statement, with the actual figures at the end of last year.

Q. How generally is the checking system used with you?

A. The checking system against savings accounts?

Q. No; how largely is business done by checks instead of by cash?

A. Very largely.

Q. Is that true in the smaller towns and cities as well as the large cities?

A. Yes.

Q. In towns of 500 inhabitants, wherever there is a branch bank, they usually do their business by check?

A. Yes.

Q. Are pay rolls usually paid by check or in cash?

A. In cash generally. You speak about small towns; in all small towns where there are branches practically every individual in that community will have an account with the bank, and he likes to pay his small bills by check, sometimes to the annoyance of the bank, but the checking system is very generally used.

Q. Of course, it would be a mere estimate on your part; could you give an estimate as to what proportion of the total business is done by check and what by cash?

A. I should suppose, speaking roughly, that 90 per cent of the business is done by check.

By Mr. BONYNGE:

About the same as ours.

A. You are a little above that, are you not?

I think we are about 90 per cent.

A. Speaking of your whole national system I think it amounts to more than that. The checking system is not quite as general with us as it is with you.

Q. Do you fix any limit for the account? That is to say, do you take any amount for a checking account, or does the depositor have to keep a certain balance?

A. Generally we take any amount he chooses to give us.

Q. You attend to the business regardless of the amount of balance he carries?

A. We do his business regardless of the amount of balance he carries.

Q. Do you make any charge for keeping the account unless he keeps a certain balance?

A. Practically nothing.

By Mr. VREELAND:

Q. There are no provisions in the Canadian law in relation to reserves?

A. No.

Q. That is, as to the amount of reserves?

A. No.

Q. There is a provision, is there not, that of the cash reserves you keep on hand 40 per cent shall be Dominion notes?

A. Shall be in legal tenders, yes.

Q. It provides specifically it shall be Dominion notes, does it not?

A. Dominion notes and legal tenders are synonymous terms.

Q. Gold is a legal tender?

A. We call them legal tenders. We call paper money legal tenders.

Q. That is synonymous with Dominion notes?

A. Yes.

Q. What proportion of reserve do the banks generally find it necessary to keep on hand at their head office and at their branches?

A. The proportion has increased materially in the last ten or twelve years. Before that the reserve got down, I think, to about 7 per cent, in some cases 3½ per cent. Now the reserve averages about 15 per cent.

Q. In cash?

A. Yes.

Q. Is the bulk of your receipts kept at the home office or head office?

A. More at the bank than at the branches. As I said before, the head office never retains any cash. It is only a transfer station.

Q. In case you have need of reserve?

A. It is generally at the local branch. We ordinarily keep our reserves where they are most likely to be required.

Q. I supposed, upon the theory of your banking with a head office, that the cash reserves were kept largely at the head office with a view of placing them anywhere needed. If reserves are needed they are needed usually in cash.

A. In twelve years I have not had the custody of $100 of the bank's money.

Q. Where are the bulk of the cash reserves kept at your bank?

A. They are kept at the branches in proportion, as near as we can, to where the deposits are likely to be called for.

Q. You mean by that, where customers are most likely to ask for loans?

A. No; when loans are asked for they are generally settled for with our banks. Often we make a loan and after that loan passes over, checks against that loan very likely come in through some other bank and come in through the clearings. We settle with the clearing house every morning. If a loan is made to a party out of town the checks would be likely to come through a competitor and would be settled for by a draft on Montreal, or a draft on

Toronto, or a draft on Halifax, or some other point; so the reserves are not called for in that connection.

Mr. KNIGHT. Take Montreal—it is necessary to keep a large proportion of legal tenders or reserves, whichever you like to call it, in Montreal for a day's settlement. The settlement with us is effected in these specific legal tenders. In the clearing house you have got to settle with legal tenders or gold.

Q. As a rule your banks would keep more cash at points where these exchanges are made in large amounts?

Mr. KNIGHT. Yes.

Q. You would naturally keep more cash in Montreal and Toronto and other large points than in other places?

Mr. COULSON. Exactly—at the clearing-house centers.

Q. You say, Mr. McLeod, that the banks generally carry 15 per cent cash reserve now?

Mr. COULSON. I think last month the figures were about $13\frac{7}{10}$ per cent, or something of that kind.

Q. For all the banks together?

Mr. COULSON. For all the banks together. There is an understanding with the banks of the association that we are to keep 15 per cent in cash. It is voluntary; it is an understanding among us, and if they get below that the association might call their attention to it.

Mr. WEEKS. You think your reserve is sufficient to properly protect the business which the banks of Canada are doing?

Mr. MCLEOD. I think it is sufficient to protect the business of any bank that is doing a prudent and legitimate business. That is, if its loans are made in a proper way.

In other words, if it is a sound bank generally, that 15 per cent is sufficient under our conditions.

By Mr. VREELAND:

Q. What is the total amount of Dominion notes issued?

A. I can not answer that now offhand.

Q. The total amount issued?

Mr. COULSON. I think we had better furnish you that correct.

Q. Dominion notes, if I remember your law, up to the amount of $30,000,000 are protected by at least 15 per cent gold reserve?

Mr. COULSON. Yes.

Q. And above that it must be full reserve?

Mr. COULSON. Yes; 15 per cent up to $30,000,000 and Dominion debentures, and over and above that dollar for dollar in gold has to be kept.

Q. I understand as to the funds to be kept by savings banks no reserve is required by law?

Mr. COULSON. There is a reserve against that also, a separate reserve. A separate fund and a separate reserve.

Q. Dominion notes are payable upon demand, are they?

Mr. MCLEOD. Yes.

A. In gold.

Q. Or silver?

A. Gold.

Mr. COULSON. Silver is not a legal tender here beyond $10.

Q. Dominion notes are issued in ones, twos, threes, and fours, and then what do they skip to next?

A. Ones and twos and then the larger numbers, twenties and hundreds and multiples of hundreds and up to thousands, and then they issue special; they have a special issue for the bank, legal tenders, for paying exchanges.

Q. Then the bank notes are not issued below five?

A. The bank notes are not issued below five, and above in multiples of five. Only in multiples of five.

Q. Is it the practice of your bank to keep what you may call a secondary reserve in the form of government securities or other securities?

A. Yes; banks generally have quite a large amount in other securities, but very seldom in government securities; generally in railway securities and municipal securities.

Mr. COULSON. Many of our banks keep a line of second securities in United States securities and railroad bonds. We usually keep large lines of sterling securities that are not as readily available. They are available enough, but very often in time of pressure it is difficult to get money from those.

Mr. MCLEOD. Each bank formulates its own policy.

Q. I see all of your banks together up to July, 1909, had due from agencies, other than from other banks, the amount of $10,000,000.

A. I am afraid that section is not very clear, Mr. Vreeland, for some banks include in it balances due by their own agencies abroad, and others include only the balances due by other banks.

Q. They do not all figure that alike?

A. They do not all figure that alike. Our government return is defective in that respect.

By Mr. BONYNGE:

Q. Did you count the amount that you have on deposit with the Dominion as security for your notes as a part of your 15 per cent reserve?

A. No; we have it down at the foot of our list.

By Mr. VREELAND:

Q. You show the total Dominion and provincial government securities to the amount of $12,600,000. Do you have any bond issues in the Dominion?

Mr. COULSON. They do not issue any special bonds for banks. It is the ordinary issue.

Q. That is a bond?

Mr. COULSON. Yes.

Q. They do have a bonded indebtedness?

Mr. COULSON. Yes; they do have a bonded indebtedness.

Q. What is the amount of the Dominion bonded indebtedness?

Mr. MCLEOD. It is very heavy.

Mr. COULSON. I can not remember the figures. The bulk of that indebtedness is in Great Britain.

Q. You say $22,000,000 of municipal securities and British or foreign securities other than Canadian. Do you consider all of those a secondary reserve upon which you could get the cash at short notice?

A. We so regard them and so place them in our statements, but we have gone through several panics and we have never realized on those securities. No doubt they would be available in case of absolute need.

Q. I was speaking from the standpoint of cash?

A. Convertibility.

Mr. COULSON. The money that could be borrowed on them; I think you could always go out and borrow money on the securities unquestionably.

Mr. MCLEOD. I do not agree with you.

Q. In case of a widespread demand for money in your banks, which would you consider most immediately available to bring in cash, commercial paper of any kind, or these bonds?

Mr. COULSON. A Canadian bank would never think of turning out any commercial paper. It is done occasionally. The bank does cover this kind of business paper in Canada.

Mr. COULSON. I am talking about uniform conditions to provide against extreme conditions. You can not profit and do business anticipating all the time; you would have such a time as you had in 1907, a universal suspension.

Mr. MCLEOD. Our experience in 1907 was somewhat different from Mr. Coulson's. We kept the lid on as tight as possible, but endeavored not to press it too hard. We have applications from customers, the same as Mr. Coulson has, and recognized a few times in 1907 that we could not reduce loans in the aggregate. Every manager is anxious to extend his business, and he will have to pay out money to good customers, in the hope of holding their business in the future, so that in my opinion it is practically impossible to reduce loans in a time of pressure, such as 1907. That is, while the pressure is acute. If it continued for several months I have no doubt loans

could be reduced, but it is scarcely practicable to reduce loans in time of pressure. Your municipal securities are available practically only to borrow against. I would not say that that was true of 1907, but it probably would have been true if we had allowed some banks to fail, as we might have allowed them to fail, instead of bolstering them up and liquidating them with open doors. Cash and balances abroad constituted about the only effective reserve.

Q. You speak of such extreme conditions?

A. Yes.

Mr. COULSON. Our eastern commercial demands were reduced and we paid off 80 per cent of them.

Mr. MCLEOD. That would be through the west, but there were demands all over we could not ignore.

Mr. COULSON. The money we got from our eastern people went to the west to meet the crop and pay our obligations there; although they were heavy they were all complied with. There was no particular disturbance, so far as our payments were concerned, in the east.

Mr. MCLEOD. The point I wish to make is, a bank to go on and do business must have some regard for the requirements of its customers, and in a time of stress it is impracticable to reduce loans materially. Your only reliance for cash reserves consists of cash in hand and balances abroad, or borrowing facilities abroad, if a panic is general; and by extending over London and other financial centers you are cut off from borrowing against securities.

Q. Canada never has had, so far as I remember, what you may call a currency panic similar to that in the United States in 1907?

Mr. COULSON. No.

Q. You may have had runs upon individual banks or upon branches; doubtless have, I suppose. You never have had a widespread currency panic as we had.

Mr. MCLEOD. Our people do not seem to have got the run habit.

Mr. COULSON. They do not care.

Q. One very good reason for it appears here, that of taking over banks instead of permitting them to close their doors in the ordinary way, and having an association and liquidating them; their notes are good, their deposits are secure; of course all of those things help to preserve confidence of the public in your banking system and do away with runs, but perhaps in a country the size of the United States it would be impossible for us to run upon those lines. I mean to have an association and keep track of the banks and take them over and liquidate them.

Mr. COULSON. The Canadian banking system has never been in such a stress as you have. If we had been run upon to anything like the extent you were in 1907 I do not know where we should have been. We should simply have been in a state of universal suspension until we had made some headway. The standing of all the banks is such, and their securities so widespread, that it would be almost impossible to create a want of confidence in them such as you suggest.

Q. On account of their mutual support largely?

Mr. COULSON. On account of their strong positions, with their large paid up capital and large paid up reserve. None of the largest banks have ever had any trouble in that way. Take, for instance, the Bank of Montreal.

Q. Is it your opinion that confidence is created by supporting and standing by each other, and by liquidating banks and paying off the depositors?

Mr. COULSON. That all helps, and we have a large paid up capital and paid up reserve, and upon that the government returns are issued from month to month and the people can use them.

Mr. MCLEOD. They are not worth the paper they are written on.

Mr. COULSON. I say ninety-nine out of every hundred are fairly correct. I will not admit any such laxity in the government as to say they are not worth the paper they are written on at all.

Mr. MCLEOD. I do not regard them as worth the paper they are written on, because there is no supervision. In the cases of the failed banks they have them made with every degree of falsification, and there is no check or supervision. When confidence is shaken these facts will become apparent to the public and will impair confidence rather than help the situation. Our records compiled from bank statements are valueless on account of the misstatements by the many banks that have failed.

Mr. COULSON. Can you tell me where a bank inspection has ever prevented a failure?

Mr. MCLEOD. In the United States.

Mr. WEEKS. We are thoroughly committed to government inspection in our country.

Mr. COULSON. There is supervision here. There is supervision within ourselves. You say the government report is not worth the paper it is written on.

Mr. MCLEOD. I made that statement, but it may be subject to some modification. I adhere to my opinion that positive external inspection is an important feature, an indispensable feature, of every banking system.

Mr. WEEKS. We are committed to government inspection of our national banks and we may conclude from what has been said that Mr. McLeod would favor that from his standpoint in Canada and Mr. Coulson would not.

Q. Is there any connection between the amount of bank reserves and your bank rates of discount? I mean when your cash reserves are getting small do you increase your rates of discount for the purpose of building up or diminishing loans?

A. No; that is very seldom done.

Mr. COULSON. Two years ago we put up all rates on commercial accounts. The sentiment was to reduce every commitment.

Q. That was the sentiment among the members of your association, you mean?

Mr. COULSON. Yes; we did not want people to come in and make new commitments.

Mr. HUBBELL (cashier Marine Bank, Buffalo, N. Y.). Did not the element of profit come in there a little bit?

Mr. COULSON. True; of course it did. But that was not a feature. Our rate changed very little with our commercial customers. For a year we did charge them,

but that was to keep them from wanting more than their ordinary requirements.

By Mr. VREELAND:

Q. There are no requirements in the laws about gold as a reserve?

A. No; with regard to the increasing of the rate, I think I am correct in saying that to 75 per cent of borrowers the rate would not be disturbed.

Q. That is, the regular customers of the bank, you mean?

A. Yes; I want to make the point, in Canada as distinguished from your system, that our rates are more even. We are not subject to anything like the fluctuations that come to your country owing to your present imperfect system.

Q. You refer more especially to New York City?

A. No; I think it applies generally throughout the country.

Q. I think our rates run pretty even outside of large centers.

A. Yes; I think that would be correct.

Q. To regular customers?

A. Yes.

Q. There is not much change in them?

A. That is about the same as here.

Q. Do your banks make any attempt to acquire gold for any purpose?

A. No.

Q. You have no special use for it?

A. We have no special use for it except for reserves.

Q. They have nothing to do with your note issues and no certain reason for your paying gold?

A. The operation of the law in regard to holding 40 per cent of legal tenders is to preclude our acquiring any considerable amount of gold.

Q. Is to prevent it?

A. Yes; if we acquire the gold we have to acquire legal tenders practically to the same proportion.

By Mr. BONYNGE:

Q. Have you any means of knowing how much gold there is in circulation in Canada?

A. I could give you the amount.

Mr. COULSON. We haven't a Canadian circulation of gold. The gold in circulation is the United States gold.

By Mr. VREELAND:

Q. Very little of it seen?

A. Very little gold in actual circulation.

Q. The money that is carried in the pockets of people would be silver and your Dominion notes of small sizes and your bank notes?

A. And the bank notes.

Q. Very little gold in circulation?

Mr. COULSON. Very little.

Q. Your banks make no attempt to acquire or keep gold. It has no special relation to the system except that it is the standard of value and your Dominion notes are redeemable in gold?

A. Yes.

By Mr. HUBBELL:

Q. Mr. McLeod, do you have a prevailing rate of exchange here? Is there a prevailing rate of premium and discount between the banks?

A. That rate fluctuates.

Q. Is that a matter of daily market?

A. Yes; a matter of daily market.

Q. Between the banks?

A. Between the banks.

Q. How high does that reach?

Mr. COULSON. Don't ask us. Go back to 1897. I think it was as late as five years ago we had some collections due near Boston and our correspondent had sent up clearing-house certificates on a Boston clearing house, and I telegraphed him they were no use to us, and he telegraphed back to cancel the arrangement.

By Mr. VREELAND:

Q. We will take up note issues, Mr. McLeod, and ask you a few questions about that. The amount that can be issued is the paid in capital of the bank besides the emergency act of 1908.

A. The emergency act.

Q. And with the further exception of the Bank of North America, which can issue up to 75 per cent of its capital.

A. Yes.

Q. The note holders have a security and a first lien upon the assets of the bank?

Mr. COULSON. Yes; the assets of the bank.

Q. They have also the 5 per cent of total circulation in hands of government?

Mr. COULSON. It is 5 per cent, calculated on the highest amount circulated during the year.

Q. By each bank?

Mr. COULSON. By each bank. It is adjusted every year.

Mr. WEEKS. Has the emergency circulation ever been used?

Mr. KNIGHT. A little last year.

Mr. MCLEOD. I do not know who did use it, and I do not want to know.

Q. Mr. McLeod, your business in Canada is increasing so fast that, unless you materially increase your bank capital, I should think you would soon get to a point where you would have to have more circulation than you can get; what are you going to do about that?

A. That is a problem we shall have to meet, and I presume it will be up for discussion at the same time as the modification of the bank act. The act is under consideration now.

Mr. COULSON. The true way is to increase the capital.

Mr. MCLEOD. No bank not on the verge of insolvency would use that emergency circulation.

Q. To what extent are your notes legal tender?

A. They are not legal tender at all.

Q. Aren't banks obliged to receive the notes of other banks?

A. Well, in payment of debts they do receive them. They are not obliged to receive them.

Q. They are not obliged to?

A. No.

Q. Then if a customer comes in to pay his notes at your bank you are not obliged to receive the notes issued by another bank?

A. No.

Mr. COULSON. You can demand legal tender.

Q. They are not made legal tender by mutual arrangement?

A. No.

Q. They are only legal tender to the bank that issues them?

A. Yes; they are an offset.

Q. Limited to that?

A. Yes.

Q. What is the government tax upon your bank notes?

A. No tax.

Q. No tax whatever?

A. No; we are not taxed at all, except in the matter of the provision for 40 per cent of our reserve in legal tender.

Q. Who pays the expenses of issuing them?

A. The issuing bank.

Q. Each bank?

A. Yes.

Q. Does the Dominion make the arrangement for their printing?

A. Each bank makes its own provisions under the supervision of the Banking Association.

Q. But each bank makes its own arrangement about their design and the total of the issue?

A. Yes; they are issued to the bank direct on the advice of the association. That latter arrangement is under a recent date—the last six or seven years.

Q. What is the average time that they stay out before they are redeemed?

A. I think the average life of a note is less than a year.

Mr. BONYNGE. Sixty-six days is the limit.

Mr. KNIGHT. You refer to a different matter.

Q. Are you able to keep notes in circulation in Toronto?

A. I think there is a large amount of the bank notes in circulation in Toronto. Perhaps the percentage would be as great as in the country. The distance from the centers, of course, tends to leave the notes out longer. They are longer in transmission.

Q. You have so many notes in circulation in Canada that the average time each note would stay out must be very short?

A. We could only estimate.

Q. They would come back to the clearing house?

A. Yes.

Q. The same as checks?

A. Yes.

Q. And presented to you for payment?

A. Yes.

Q. So the average time of circulation in the city of Toronto would be very small?

A. Would probably be small; yes.

Q. Whereas, say, in the early distribution it would not take them long to get to points where they would be redeemed?

A. Yes.

Mr. COULSON. Take the average circulation—we have had some estimates on that during the actual season of circulation, that is about sixty days.

Mr. MCLEOD. From the time you put it out?

Mr. COULSON. Yes.

Q. All of your notes are redeemed about six times a year?

Mr. COULSON. I am speaking of the Toronto demand; a note stays out about an average of sixty days, and that is the case particularly in the west. It is coming in and going out, and the average is about sixty days.

Mr. MCLEOD. I do not know any way you can get reliable figures on that better than to take an issue that you have decided to cancel and take an average time that issue would be out. At the present time those figures would compare unfavorably with the figures that would have been made ten years ago, before we got up to the maximum of our circulation, and for the present time they are not reliable. I do not think the average circulation of a note is as long as Mr. Coulson's estimate.

Mr. COULSON. We have had some experience of pay rolls on some of the railway systems, and the average of a circulation paid up from one end of the country to the other is just thirty days, and we have tested that on two or three occasions. That is for our own guidance, but when you come to the moving of a crop where money is paid out to the customers, of course, the bank gives each man a ticket with two or three dollars, and he then takes it to the bank or to the merchant, and the merchant may have it for some little time. The time it will take getting back to the redemption center will average nearly sixty days.

Mr. MCLEOD. Sitting here discussing this subject has brought back to me one of my early experiences in banking. It was in an isolated community where the

operations were buying and shipping grain. The bank had a capital of $100,000. Under the Provincial law it had the right to issue $3 to $1 of its capital in circulation. On one Saturday evening all our circulation was outstanding. Over Sunday the winter set in, the harbors froze up, the vessels had to put to sea, loaded or partially loaded. By the middle of the week our circulation was much reduced; we had received exchange for the cargoes and within a month the circulation was down to normal; the notes had gone out, had paid the farmers for the grain, they had been paid by the farmer to the shopkeeper and by the shopkeeper deposited in the bank. The shopkeepers had bought out bills on London, thereby paying their debts abroad, and the whole operation was completed. When an elastic currency is spoken of, I often think of that example of elasticity.

By Mr. WEEKS:

Q. What would you do if Mr. Coulson appeared in your bank some morning with a million dollars of your bills?

A. Pay the bills.

Q. How would you pay them?

By Mr. VREELAND:

Q. Draft on London?

A. I think we could satisfy Mr. Coulson in a very short time.

Mr. COULSON. I think so.

Q. Suppose he did not want to be satisfied; what could he demand?

A. He could demand gold or legal-tender notes.

Q. I suppose he could limit his demand to two things, could he?

A. Yes; he could limit his demand to legal tender.

Q. You would not have an amount like this in just gold at any one of your offices, Toronto for instance?

A. Yes; practically.

Q. Take the Winnipeg office, for instance.

A. No; that is a very extreme case. There is no possibility in the world that anyone could get so much of our notes for presentation at one time.

Q. I am assuming some person is vicious and wants to damage you.

A. Yes.

Q. I want to see how you would get out of that, what would happen?

Mr. COULSON. We would go to our neighbor and try to get them to sell an exchange on New York and get the money on it.

Q. That is not legal tender.

Mr. COULSON. If I was in that position, I should go to the Bank of Montreal straight and say I am short, I have the money in London, I should buy my exchange and give him the money. If your credit is good, there is no trouble about it.

Mr. WEEKS. What you would do would be to stand by one another under those circumstances?

Mr. COULSON. Undoubtedly.

Mr. MCLEOD. If that should happen, of course, we should go to another bank—that would be a most extreme case. We should say: "There is a party that has collected our notes until he has acquired a million of them; the man comes in and demands legal tenders against us; we

will pay you legal tenders in Winnipeg, Montreal, St. John, or Halifax, or we will transfer funds to your credit in New York or London. We want the legal tenders to use now." Or we might say: "We will replace the legal tenders as soon as the express companies can get the legal tenders here." There would be no difficulty about that matter.

Mr. COULSON. The other banks would simply come to the rescue.

By Mr. VREELAND:

Q. There is absolutely no tax on this circulation?

A. No tax.

Mr. COULSON. There was in times past.

Q. When was that discontinued?

Mr. COULSON. That was discontinued thirty years ago.

Q. What tax do you pay to the government?

Mr. COULSON. We pay none now on the circulation.

Q. You would be obliged to keep a tax reserve. I do not see how you figure it as a tax on circulation.

Mr. KNIGHT. It takes the place of a tax.

Mr. MCLEOD. The interest is the tax.

Q. I am asking if it costs the bank anything?

A. No, it does not.

Mr. COULSON. It saves the government interest.

Q. The government saves interest on that amount of the Dominion notes, but I am talking about your bank?

Mr. COULSON. It costs us nothing.

Q. There is absolutely no tax upon circulation?

Mr. COULSON. No, sir.

Q. Direct or indirect?

Mr. COULSON. No.

Q. What Dominion tax do you pay to the government?

Mr. COULSON. We pay it to the government.

Mr. MCLEOD. Provincial governments and cities.

Q. Do you pay anything to the Dominion government?

A. Nothing.

Q. No regular tax at all?

A. Nothing.

Q. If a bank fails to pay its notes, they immediately commence drawing interest, do they not?

Mr. COULSON. Yes; after a bank has suspended.

Q. That has the effect of taking them out of circulation?

Mr. COULSON. Yes.

Q. Banks or some one else would commence accumulating them and holding them?

Mr. COULSON. Yes; they keep them until the suspended bank is in a position to pay them.

Q. I assume the banks generally hold them?

Mr. COULSON. Yes.

Q. And get 5 per cent interest?

Mr. COULSON. And get 5 per cent interest.

Q. Until they are paid by the——

Mr. COULSON. Receiver or liquidator.

Q. You are not obliged to hold any reserves against your notes?

Mr. COULSON. Not specially, except that 5 per cent that is held in the redemption fund.

Mr. MCLEOD. And that is not available.

Q. Are banks liable for the notes of failed banks, or rather banks having notes of failed banks, beyond 5 per cent?

Mr. COULSON. Yes.

Mr. MCLEOD. After the 5 per cent fund is exhausted further calls would be made on the banks by small percentages. I think the percentage is limited—a certain per cent within one year. We are not guarantors for actual payment. I think it is not to exceed 1 per cent per year.

Q. The information which was given us was that if the assets of the bank were not sufficient, and if the 5 per cent was not sufficient primarily, the other banks would be guarantors of the notes?

A. That is correct.

Q. And on that they are to pay——

A. So much per year.

By Mr. BONYNGE:

Q. Until you have made up the full amount?

A. Yes.

Mr. KNIGHT. Of course, you know that fund has never been touched since it was created?

Mr. VREELAND. The 5 per cent fund?

Mr. KNIGHT. Yes.

Q. Tell us how soon these notes of failed banks would be paid out of the redemption fund. That is, how soon would the notes be paid from the redemption fund after the government had judicial notice of the failure of a bank?

A. That, as has just been said, never has been put to a practical test.

Mr. COULSON. The first moneys collected are applied in redemption of notes issued, and whatever proportion they

may bear to the entire issue, the liquidator notifies the banks that on a certain day he will pay that proportion and interest.

Mr. McLEOD. That is not the question. As I understand it, Mr. Vreeland wishes to know how soon that fund could be made available; that 5 per cent fund—how soon the government guaranty under the notes would be available to the note holders.

Q. How soon are these notes of a failed bank redeemed?

Mr. COULSON. Just as soon as the liquidation provides a fund for it.

Mr. McLEOD. The notes have, in practice, been redeemed as fast as they have been presented.

Q. That is, you mean that, in practice, the other banks have taken over the failed bank?

A. No; where there is a liquidator. Take the case of the Bank of Yarmouth; it was not taken over.

Q. When a bank fails here, doesn't it close its doors?

A. Yes; it closes its doors.

Q. When would its notes be presented for payment?

A. The notes go into the other banks and go through a liquidator and are so paid.

Q. Who is the liquidator?

A. Take the case of the Bank of Yarmouth; the banks did not interfere at all with that bank failure, and the notes were collected by the other banks and were paid by the liquidator.

Mr. KNIGHT. Yes.

Mr. BONYNGE. The court appointed the liquidator, I suppose?

Mr. VREELAND. No; the association has a curator.

A. A curator or a liquidator.

Mr. BONYNGE. Who appoints the liquidator?

Mr. KNIGHT. The court.

Q. The curator is one appointed by the association, and the court appoints a liqudator to close up the affairs of a bank?

Mr. KNIGHT. Yes.

By Mr. VREELAND:

Q. Is that always so? Haven't other banks ever taken hold of a bank and liquidated it themselves without letting it go to a liquidator?

A. I mean where a bank absolutely fails and is not assisted by the other banks. I am speaking of an absolutely failed bank.

Q. I understood it was not the exception, but the practice, for the other banks or the association to take over a failed bank?

Mr. KNIGHT. No.

A. No; that has not been the practice.

Mr. COULSON. That has only happened in two cases.

Q. The practice is to let them close?

Mr. COULSON. The practice is to let them close.

Q. Is that a growing practice?

Mr. COULSON. It is.

Mr. HUBBELL. It is a matter entirely of self-preservation?

Mr. COULSON. It might be that.

Mr. VREELAND. Ordinarily, then, first the associated banks appoint a curator?

Mr. COULSON. Yes.

Q. What are his duties?

Mr. COULSON. He takes possession and takes charge, collects in anything outstanding.

Mr. MCLEOD. He takes the management of the operation and directs everything else in fact.

Q. How long does he stay?

Mr. COULSON. Until the liquidation is completed. When the liquidator is appointed, he stays until he winds it up.

Q. When is a liquidator appointed?

Mr. COULSON. Just as soon as an application is made.

Q. I mean just when—to distinguish what the curator does and when his duties end, and when somebody else may be appointed. What has the curator done in the meantime?

Mr. COULSON. I think in the Bank of Yarmouth the curator was continued almost to the end.

By Mr. BONYNGE:

Q. His duties ceased as curator and he became the liquidator?

Mr. KNIGHT. No; he was appointed liquidator formally.

Mr. MCLEOD. The bank was being wound up before there was a liquidator appointed.

By Mr. VREELAND:

Q. I understand the practice is that the executive council, in case of a failed bank, appoints a curator?

Mr. KNIGHT. Yes.

Q. Who immediately takes charge of the bank and proceeds to liquidate it?

Mr. KNIGHT. Yes.

Q. Collects in its drafts and pays off its indebtedness?

Mr. KNIGHT. Yes.

Q. Then upon whose application does the court appoint a liquidator who is usually the curator?

Mr. MCLEOD. He may be appointed on the application of a stockholder, or a creditor, or of the association, I believe.

Mr. KNIGHT. Yes; let me give you an illustration. The last bank that failed before the Yarmouth was the Ville Marie. Three liquidators were appointed in the ordinary way; they were appointed by the court. Not one of the three was a practical banker; not one of the three had an eye to economy, expense, or the exigencies of the situation; and these three parties sat together for nearly eight years and practically lived off the bank, without any purpose of winding it up. The first bank that failed after the Ville Marie was the bank mentioned by Mr. McLeod, the Bank of Yarmouth. The liquidator wound the bank up inside of nine months.

Q. Either upon the application of the association, or upon the application of some stockholder, or of someone—I suppose any creditor—a liquidator is appointed by the court who is usually the curator who has been in charge?

A. Yes.

Q. And he proceeds to finish the liquidation of the bank?

A. Yes; by taking the necessary legal proceedings that could only be taken by a liquidator.

Mr. BONYNGE. What does the government do with the 5 per cent guaranty fund that you deposit?

A. It becomes——

Mr. COULSON. They spend it.

Q. What do they do with it after they collect it?

Mr. COULSON. Treat it the same as if it was savings banks deposits.

Mr. KNIGHT. They pay the bank's interest.

Q. They pay bank's interest on it?

Mr. KNIGHT. Yes.

Q. It is a loan to the Government?

Mr. COULSON. It is a loan to the Government upon which they pay interest.

Mr. WEEKS. Suppose some of the notes of the Sovereign Bank came into your possession, would you get 5 per cent on them until they were liquidated?

Mr. MCLEOD. After a certain date.

Mr. COULSON. Until the liquidator gives notice.

Q. Then interest stops?

Mr. COULSON. Then interest stops.

Q. What would prevent your holding those notes and drawing interest for a long time?

Mr. COULSON. The notice. After that they cease to bear interest.

Q. Do you think that the inspection methods which you have for determining how much circulation a bank has out are sufficient to prevent fraud provided the officers of a bank want to perpetrate a fraud?

Mr. MCLEOD. I think they are. We have a statement from the engravers supplied to the association.

Q. What engravers?

A. Generally the American Bank Note Company. A record is made of that by the secretary of the association. The notes are passed on to the bank. They are issued. They are destroyed by the directors. Of course, if the

directors fail to destroy them, and instead of destroying them put them into circulation, that would be one way of defeating the check.

Mr. VREELAND. There would be no way of detecting it except the statements of your directors?

A. There would be one way of detecting it; that is, by keeping the record of each note that is outstanding and the date that it was destroyed, etc.

Mr. KNIGHT. The chief executive officer also signs the certificate.

Mr. COULSON. Yes; an officer signs the certificate, and there is a very carefully prepared certificate signed by the directors. Also the destruction of notes is as well safeguarded as can be.

Q. It is entirely in the hands of the bank officers?

Mr. MCLEOD. It is entirely in the hands of the bank officers and directors.

Mr. COULSON. The association has supervision over that.

Mr. MCLEOD. Any such inspection could have no effect on the burning of the notes. We have to rely on somebody.

Q. If the general manager of the bank and those three clerks, instead of burning the notes were to put them in their pockets for recirculation, what would happen, how would you determine the fact, and what punishment would be inflicted?

A. There is one way of determining that, and that is by keeping a record of the circulation and the date of destruction of each note as they were called home, and I

think it should be kept. And there is another way of determining it—that is, by the amount of notes that are kept in circulation. A bank can't keep in circulation an inexhaustible supply of notes.

Mr. KNIGHT. There is one thing that must always be kept in mind, namely, that the last thing a man would resort to is an over issue of notes, he would have to come back to the clearing house and he would have to redeem them.

Mr. MCLEOD. As a general rule the banker that goes wrong starts in hoping to recover, and his circulation accounts would be the last account he would tamper with, because he could not put it right. A good many years ago we had a cashier of our bank who practically looted the bank way back in the sixties, James Forman, but although he had the notes practically in his own hand so that he could order what notes he wanted—that was before there was any bank act worth speaking of, before confederation—and he had those notes so he could do what he liked with them, still the circulation accounts were correct.

By Mr. HUBBELL:

Q. How can you keep the record of so many agencies so as to get an exact record of the amount of deposits outstanding and amount redeemed?

A. We do that by daily returns.

Q. Telegraphic returns?

A. By mail generally.

Q. Suppose a manager got a little bit close to it, wouldn't he be apt to make a haul?

A. If you will allow me I will answer that question as it applies to ourselves. We have every day a report from each branch, an estimate by each manager of the amount in the Bank of Nova Scotia, notes held back, a statement of the amount he has on hand at the close of business on the day on which the return is sent, an estimate of the amount that he will have on hand the following day and for the two following days. We do not allow a manager to go below his estimate. He must estimate what he needs, and upon those estimates we judge what our circulation will be. Formerly we used the telegraph, but we have adopted the other method.

Mr. COULSON. Our system is perfect. If we wish to prevent an overissue our system is such we can check it every day. There is a penalty for overcirculating.

Q. Isn't the amount of circulation outstanding, Mr. McLeod, pretty near the limit all the year round? Is there really elasticity in the fall?

A. At the present time there is little elasticity.

Q. How can you explain the fact that ten years ago you had deposits of 300,000,000 or 400,000,000 and now you have deposits of about 750,000,000 and yet the note increase has been about 75 per cent?

A. The wealth of the country has increased to a greater extent than the active business of the country. Then I may say, also, that we have got to the maximum circulation at the present time in cash. We had to limit our circulation.

Mr. KNIGHT. We have got within 11,000,000 or 12,000,000 of the limit now.

Q. I speak more of elasticity.

Mr. KNIGHT. I mean of the notes available for circulation. The variation of circulation is from 15,000,000 to 20,000,000.

Q. You need about 50,000,000 or 60,000,000 out West for the crops, don't you?

Mr. COULSON. We paid out that amount of money and were there redeeming them all the time.

Q. Then your 15,000,000 of circulation does not enter into that 50,000,000 except for the West?

Mr. COULSON. In January last we had 30,000,000 that we could issue before we reached the limit.

Mr. VREELAND. You mean in all the banks?

Mr. COULSON. I mean in all the banks.

Q. Last January?

Mr. COULSON. Last January. That 15,000,000 is what the average of the circulation increased, but a great deal more than that was paid out. Three or four times the amount of that was paid out. We are redeeming this every day. It is redeemed every day. It does not stay out. It just passes out and comes back. We are redeeming it at all the redemption centers. We have to keep redeeming it every day, and we are keeping it out every day. We always do that. When it gets up to the point, we have to cease, but we may put out a very large amount during that period; more than the 30,000,000. It keeps turning over all the time. We redeem, at a time like the present, $150,000 or $200,000 in Montreal and Toronto, but that is day in and day out. Of course, we are paying out as much each day, so it is only the excess

between what we are redeeming and what we are paying out that goes to increase the volume of circulation.

Q. Your volume of circulation you consider the average per month?

Mr. COULSON. Yes.

Q. That is the average of each bank outstanding added together?

Mr. COULSON. It gives the daily outstandings. It gives the average, and it gives the highest point during the month. That is the return to the Government.

Mr. BONYNGE. You mean the statement made by the bank to the Government?

Mr. COULSON. By the bank to the Government.

(Recess until 2.30 p. m.)

Q. Mr. McLeod, I see you have in your statement 24,000,000 in deposits bearing interest and about 6,000,000 in current accounts not bearing interest.

A. Yes.

Q. Is it your idea that this is about the proportion generally that the banks would average?

A. Yes; I think about that proportion.

Mr. KNIGHT. Oh, no.

Mr. MCLEOD. You mean they would have a larger percentage with interest?

Mr. KNIGHT. Yes.

Q. It is almost exactly two to one?

Mr. KNIGHT. Yes.

Mr. MCLEOD. On referring to the statistics I find that only 22.7 per cent of the total deposits in Canadian banks are free from interest, so my estimate is practically correct.

Q. In this statement of July the Bank of Montreal had $44,000,000 payable on demand and $88,000,000 payable upon time. That was outside of government deposits?

Mr. KNIGHT. Yes.

Q. Mr. Smith says the mortgage companies pay 3½ per cent interest; isn't there a possibility that they will obtain deposits at the expense of banks if they pay a higher rate of interest?

Mr. LAIRD. Yes; I think it is likely that paying that rate they take some of the money that would naturally come to us. I do not think it is very important.

Mr. BONYNGE. The Canadian Permanent Mortgage Company, that Mr. Smith represents, had a cash balance of something over a million, and most of it on deposit with banks.

Mr. MORRIS. The Canadian Permanent Mortgage Company, I think, is an exceptional concern.

Q. It had practically 25 per cent cash reserve?

Mr. MORRIS. Yes.

Q. It is the largest company of that kind in Canada, is it not?

Mr. MORRIS. Yes.

By Mr. VREELAND:

Q. I notice your current loans secured by bonds, debentures, and stocks, $1,000,000; that is all secured?

A. Yes.

Q. Loans secured by grain and other staple commodities; those would be warehouse receipts and that form?

A. Elevator receipts for grain, etc.

Q. You mean stored grain?

A. Quite a good proportion of the business is in America.

Q. Overdrafts; how many of these overdrafts have been authorized and bear interest in proportion to the amount used?

A. Those are overdrafts—overdrawn accounts.

Q. Without the consent of the bank?

A. Sometimes without the consent.

Q. It is the aggregate of overdrafts and checks which you considered good which you have paid?

A. No; they are the amount outstanding at the time the balance sheet was made up. You state the amount.

Q. One hundred and fifty-nine thousand dollars.

A. Yes.

Q. What I was getting at is, you know, that, especially in Scotland, they have a form of authorizing drafts without any money in the bank?

A. Cash credit.

Q. And interest is paid upon the amount actually used?—I was getting at whether you follow any of that line of business.

A. No; they have to borrow that money.

Q. These are simply temporary advances, payments on checks?

A. Yes.

Q. To be made up by deposits?

A. Yes.

Q. You have another form of overdraft authorized but not specially secured, $88,000?

A. Yes.

Q. What does that mean, "authorized?"

A. That is generally approved after the event.

Q. After the event?

A. Yes.

Q. These overdrafts that were not secured, the other item, must have been approved before the event?

A. Not necessarily. They might be approved by the manager, or granted by the manager and afterwards approved by us.

Q. Notes and bills discounted and current; that is the item of loan?

A. Yes.

Q. Does that include a great amount of single-name paper?

A. No; a very moderate amount.

Q. What class of single-name paper would that be mostly—actual paper purchased such as your banks would consider good in the cities?

A. This item of single-name paper would be paper we would purchase through brokers.

Q. Note brokers?

A. Yes.

Q. You have the note broker here?

A. No; we buy in Chicago and Boston.

Q. And that would be such single-name paper as is being sold in the cities by large manufacturing concerns?

A. Yes; in addition we make some single advances in this country, particularly to good clients.

Q. What would be the form the greatest portion of that $13,000,000 of paper would be in? Is it in the form of notes for two or three or four months?

A. Yes; portions of it would be bills receivable, trade bills.

Q. It is business paper?

A. Yes.

Q. Do your loans on single paper, using that as a general term, covering all kinds of notes upon time drawing interest, correspond quite closely to our loans across the border?

A. No; your loans on the other side are more generally given on single-name paper. A large merchant will come to the bank and apply for a loan; perhaps he would want a loan of $100,000; he simply gives his note for it. The bulk of our advances are against trade bills.

Q. A merchant in St. Paul who is in first-class credit makes arrangement with his banker and discounts his bills and pays all of his accounts by check; what would a similar concern do here in the city of Toronto, a firm in first-class credit, what form would they have to be, manufacturer and wholesaler?

A. As your St. Paul merchant will make an arrangement with two or three different banks to grant him a loan of $50,000 or $100,000 or $150,000 each, then the chances are he will sell his paper through a note broker; you have these loans agreed to be made by his bank in reserve to be used when panic or trouble comes. That is very often the case. The Canadian merchant relies upon one bank to take care of him. Sometimes an account is divided. I think, perhaps, I may state with propriety that we have catered more to trade bills than most banks do. That is, as against single-name advances.

Q. What do you call a trade bill?

A. A bill given to a merchant for an invoice of goods, or a draft drawn by a merchant on a customer some distance away.

Q. You call both of them trade bills?

A. Yes.

Q. Then your merchant here—you say you take care of him—would make arrangements with your bank for the money with which he would discount his bills and pay them by check?

A. Yes.

Q. Would a firm here in first-class credit, a mercantile firm, give its notes to a manufacturer or wholesaler upon time for goods?

A. They sometimes do.

Q. Would they accept drafts upon time for goods with interest?

A. No.

Q. Your practice is that they discount their bills and pay by check?

A. Yes.

Q. Making their arrangements for their money with their bankers?

A. Yes; of course, where you go to the middleman, or the wholesaler who supplies small purchasers throughout the country, he draws on these small purchasers and they accept the draft. As a rule, they do not pay cash for their purchases.

By Mr. HUBBELL:

Q. Do you use a signed statement at all for your single-name paper?

A. Yes.

Q. You do not use any audited inspection of a merchant?

A. No.

Q. Just your own judgment?

A. Yes; just a signed statement, and sometimes the statement is attested by an auditor, but an auditor selected by the merchant, not by us.

By Mr. VREELAND:

Q. Do your banks buy foreign bills to any extent?

A. Bills drawn on Europe and Great Britain?

Q. Yes.

A. Yes.

Q. You make no distinction, I take it, between what we call financial bills and commercial or trade bills, notes?

A. We prefer the commercial or trade bill as against financial bills.

Q. Do the banks here borrow to any extent from their correspondents in London?

A. I think not. I think that the strongest banks very seldom borrow from the London bankers.

By Mr. BONYNGE:

Q. Have any of the Canadian banks branches in Europe?

A. I think there is one in Paris—one of the French Canadian banks has a branch in Paris—and there are several branches in London.

Q. Are there any in South America?

A. No; not any in South America.

STANDARD BANK OF CANADA.

Statement of January 30, 1909.

PROFIT AND LOSS ACCOUNT.

Dr.		Cr.	
Balance brought forward from January 31, 1908	$61,902.60	Dividend No. 70, paid May 1, 1908	$46,800.43
Profit for year ending January 30, 1909, after deducting expenses, interest accrued on deposits, rebate of interest on unmatured bills, and making provision for bad and doubtful debts	283,065.27	Dividend No. 71, paid August 1, 1908	46,802.38
		Dividend No. 72, paid November 2, 1908	46,802.70
		Dividend No. 73, payable February 1, 1909	46,804.67
		Contribution to officers' pension fund	7,500.00
		Transferred to reserve fund from profits	100,000.00
Premium on new stock	2,800.00	Transferred to reserve fund, premium on new stock	2,800.00
		Balance of profit and loss account carried forward	50,257.69
	347,767.87		347,767.87

GENERAL STATEMENT.

Liabilities.			Assets.		
Notes in circulation		$1,166,967.00	Gold and silver coin	$521,156.04	
Deposits bearing interest (including interest accrued to date)	$14,128,286.99		Dominion notes, legal tenders	2,314,039.00	
Deposits not bearing interest	1,885,920.93				$2,835,195.04
		16,014,207.92	Notes of and checks on other banks		681,190.59
Former dividends unclaimed		24.00	Due from other banks in—		
Dividend No. 73, payable February 1, 1909		46,804.67	Canada		285,723.32
Due to other banks in—			United States		284,398.20
Canada		221,111.76	Great Britain		33,757.27
United States		196,908.32	Dominion government and other first-class bonds		2,030,846.94
			Loans on call on government, municipal, and other bonds and stocks		1,264,486.44
		17,646,023.67			7,415,597.80
Capital	$1,562,500.00		Deposit with Dominion government for security of note circulation		61,000.00
Reserve fund	1,862,500.00		Bills discounted and advances current		13,068,243.00
Rebate of interest on bills discounted	41,006.12		Loans to other banks in Canada secured		259,125.27
Balance of profit and loss account carried forward	50,257.69		Notes and bills overdue (estimated loss provided for)		42,981.53
		3,516,263.81	Bank premises		279,839.89
			Real estate other than bank premises		10,000.00
			Other assets not included under the foregoing		25,499.99
		21,162,287.48			21,162,287.48

TORONTO, *January 30, 1909.*

GEO. P. SCHOLFIELD, *General Manager.*

Interview with George P. Scholfield, general manager of the Standard Bank of Canada.

By Mr. VREELAND:

Q. Mr. Scholfield, your head office is in Toronto?

A. In Toronto.

Q. How many branches do you have?

A. Seventy-seven.

Q. What would you say, Mr. Scholfield, about the average amount of cash reserves carried by the commercial banks?

A. As regards the proportion that should be carried?

Q. No; but the amount which is actually carried in cash as reserves?

A. You are speaking now of legal and specie holdings?

Q. I mean cash.

A. I think it will average between 10 and 11 per cent.

Q. Is that about what the Standard runs?

A. Yes; it varies from about 8 to 15 per cent. I think in our last annual statement the amount of cash held was over 16 per cent, but our financial year closes at the end of January, when our current loans are rather less than usual, so that naturally it has the effect of increasing our cash reserves proportionately somewhat.

Q. Do you have any call loans with stock collateral in your bank?

A. Yes, but not outside of Canada.

Q. Some of the banks do, I suppose, have call loans in New York?

A. The Montreal, Commerce, British, Merchants, Royal, and Nova Scotia are the chief Canadian banks, I think,

lending outside of Canada. In years past we have loaned through our foreign agents, but not recently.

Mr. WEEKS. Do they charge a commission for doing it?

A. Yes; if they guarantee the loan.

By Mr. VREELAND:

Q. January 30, 1909; this would be your last general statement that is made according to law and published?

A. Yes; but the information supplied would not be applicable to our to-day's affairs in that we have since absorbed the Western Bank, and with the acquiring of it, together with the natural increase in our business, our assets are nearly double what they were when the statement you have in your hands was published.

Q. Absorbed the Western?

A. Absorbed the Western.

Q. Is the Western on this list of ours?

A. It is among the chartered banks.

Q. Was it the 1st of January that you absorbed that?

A. The assent of the treasury board, which is the final act in absorption, was obtained in February last.

Q. I do not find any Western Bank in the list.

A. The 15th of February was the date of consummation. They would not have to send a government return on that date.

Q. There are 31 chartered banks given us.

A. January, 1909, you are looking at there?

Q. Yes.

A. The end of January?

Mr. HUBBELL. This is in July.

A. The Western Bank statement would not appear in the July return.

By Mr. VREELAND:

Q. That is July, 1909. There were 32 last year?

A. Yes.

Q. Thirty-one are given here, not including yours, and the Sovereign is included, and that leaves 30 now.

A. The Northern and Crown have recently been amalgamated, and perhaps they appear in the statement you have in front of you as two rather than one. Both the Northern and Crown are comparatively new institutions.

By Mr. WEEKS:

Q. What do you think about the amount of reserve? Is the reserve carried by the banks sufficient to provide for the conditions which you have to meet?

A. Yes; I think, generally speaking and having a regard to the Canadian situation, that the cash reserves carried, while not generous, are sufficient for our purposes, provided always, of course, that, in addition to the cash, the quantity of government bonds or securities which have an immediate market value and ready sale outside of our own country are relatively substantial in amount.

Q. It seems that the number of banks in Canada is constantly decreasing?

A. The present disposition, and I think a wise one, is to decrease rather than increase the number of banks. I do not think the needs of our country at the present time would be better served by increasing the number, but on the contrary I should be of opinion that if we

had fewer, but not materially fewer, and very strong institutions, it would be moving in the right direction. This is my opinion, of course, and there are many in the country, and thoughtful men, too, who do not agree or share in it. I should think it would be better if, in granting new charters, the government insisted that at least $500,000 capital must be actually paid up before a bank should be allowed to open its doors for business and issue its circulation.

Mr. VREELAND. To get a new charter?

A. New banks may be safely conducted, and, we will assume, very conservatively; but it is rather a difficult matter to give to their shareholders for some years a better return than say 4 per cent, and, having regard to the double liability always existent, that can not be considered an attractive investment.

Mr. BONYNGE. Is it necessary to go to parliament for such new charter?

A. It is necessary to go to the government for a charter. The charters of existing banks are renewed every ten years, and in the event of a bank being absorbed its charter remains in force for winding-up purposes, but after the approval of the treasury board has been given it is forbidden to reissue its notes for circulation, or carry on any business whatever, except to realize upon the assets not included in the agreement of sale, and discharge its liabilities. The Western Bank charter, assuming that the transfer would have been assented to by the treasury board, has a very substantial value, but by reason perhaps of sentiment on the part of some

of the former directors of the Western Bank, who are also members of the Standard Bank board, we should be unwilling, except under very special circumstances, to make a disposition of it.

By Mr. VREELAND:

Q. Was their charter any better than that of your own bank?

A. No.

Q. The Standard?

A. No; it was not better. The officers of the Western Bank, I understand, were of the opinion that by reason of the name "Western," and our northwest now becoming such a factor in our national life, it should have more than the usual value attaching to a name, but I am not prepared to admit or deny the soundness of that contention. When a bank's liabilities have been discharged a surrender of the charter will be permitted.

Mr. WEEKS. Would it die if the bank failed?

A. Yes; the failure would operate as a forfeiture of the charter, except so far as the latter would remain in force for the winding up of the business, and if necessary the enforcement of the double liability.

By Mr. VREELAND:

Q. What is there about the charters expiring in 1911?

A. A decennial revision is made and the charters are continued in force during that period as regards name, capital stock, shares, value, and head office; but, of course, a bank meantime might be permitted by application to increase or reduce its capital stock; and also assuming that meantime it did not become insolvent or fail to perform the conditions required under the act.

Q. As a matter of law your charters do expire in 1911?

A. As I have explained previously.

Q. It would be at the option of the Dominion government parliament to renew them?

A. Quite so.

Q. How long would they renew them?

A. Ten years. They are decennials.

Q. They are renewed every ten years?

A. Yes.

Q. The government has shown a disposition to accede quite generally, haven't they, to the wishes of the banks?

A. Yes; quite so. The attitude of the government would appear to give the banks quite as much responsibility as they are willing to accept.

By Mr. WEEKS:

Q. You think it is a good thing for the business of the country that the banking is being concentrated in so few hands?

A. Yes.

Q. That the number of banks are being decreased instead of increased?

A. Yes; within reason.

Q. What would you call reason?

A. Having regard to our small population of 6,000,000 of people, I think the present number sufficient for our purposes. I do not think we would suffer if we had 20 banks rather than 30; in fact, I should be inclined to think we would be better off, but doubtless if we had too few banks the public might think, and we have frequently heard suggestions of it, that by reason of the control being in so few hands it might be termed a monopoly.

By Mr. BONYNGE:

Q. Have you an executive committee of the Canadian Bankers' Association?

A. Yes.

Q. How is that executive committee appointed?

A. The executive committee is elected by the members of the association at their annual meeting.

Q. How many banks are represented on the executive committee?

A. I think 18 or 19.

By Mr. VREELAND:

Q. I understand any bank has the right to join the association?

A. All the banks named in the schedule at the time of incorporation became members of the association, and subsequently any other banks, after having obtained the right to do business, upon application have been admitted. I do not think there is a Canadian bank carrying on business at the present time that is not a member of the association.

Q. It says in the law "Any bank to which the bank act applies, carrying on business in Canada and not named in the schedule to this act, shall, on its own application, at any time be admitted as a member of the association by resolution of the executive council hereinafter named."

A. A bank is admitted by resolution of the executive council.

Q. To what extent is the number of associated banks increasing? There were 34 at the time this act was passed in 1900.

A. The number has decreased somewhat in the last few years by reason of failures and absorptions.

Q. I was about to ask you to what extent the association is able to fix along mutual lines, for instance, rates of interest and rates of discount and rates of exchange, and other matters that would be of general interest?

A. The association has no powers in this respect other than moral suasion, and would be unable to penalize a bank which was unwilling to accept the views of the majority.

Q. Do not the associated banks of the association have any understanding about what rates of interest shall be paid?

A. The fixed rate for deposits is 3 per cent, except in specially provided cases, such as to employees of the bank, municipal corporations, and pension funds. In respect to these there is no maximum or minimum. Two or three of the newer banks have maintained that they should be privileged to offer a higher rate than 3 per cent, and this is not objected to by the larger and older banks. I do not think the banks, other than some of the newer ones, would be desirous of paying a higher rate than 3 per cent, and although some banks have been charged with it, I am not inclined to believe that any bank has broken the 3 per cent rule.

Q. Does the association make any attempt to enforce discipline in such cases?

A. If a bank offends, the association is powerless beyond that the general managers could instruct their representatives in the various clearing houses to move in the direction of having the offending bank dismissed from the privileges of those clearing houses.

Q. You do not, as a matter of fact, attempt to inflict punishment?

A. No.

Q. Except by talking with them about it?

A. Yes.

Q. Does the same understanding exist with regard to loans?

A. No; that in my opinion, would be absolutely impossible, as loans, even for similar amounts, are so entirely different in character.

Q. Are rates of discount cut somewhat by competition between banks for the purpose of getting business?

A. They were very frequently prior to 1907. Since that time banks do not seem anxious to cut the rate, nor are the public so willing to make a change, seemingly rather preferring, if necessary, to pay a slightly higher rate than trust themselves in the hands of new friends.

By Mr. WEEKS:

Q. Do you think savings accounts should be segregated and invested under special regulations, or used as they are now?

A. I do not think savings accounts should be segregated and invested under special regulations. Experience has taught us that, no matter how badly banks are managed, or even, I might add, dishonestly, depositors, except in the case of very small institutions, do not run much, if any, risk of loss under the conditions of our present bank act.

Q. You think the government policy regarding postal savings banks is a wise one?

A. It is useful in serving the purposes of particularly timid people, but apart from this I do not think any particular benefit accrues from it.

Q. I refer particularly to collecting this money and using it as receipts?

A. Using it as what?

Q. As receipts, as ordinary revenue, without any reserve against it?

A. Of the specie held by the government a sum equal to 10 per cent of the amount of the savings-bank deposits is held as a special reserve as against those deposits. The balance of the specie would be available for taking care of the government's note circulation.

By Mr. BONYNGE:

Q. What have you as reserve against the postal savings?

A. A little less than 6,000,000.

Q. You know the amount of the postal deposits?

A. About 59,000,000.

Q. Do you think the postal savings banks in Canada are of material benefit to the people?

A. I think they serve the purpose at the present time in providing an assuring depository for nervous people who feel that the government's guaranty is the only proper protection for their savings. As a matter of fact, I think the people would be practically quite as well served, and certainly much more conveniently, by the banks. The government in return, in a new and growing country like Canada, could well afford to obtain its money abroad even at a slightly higher cost and leave the peoples' money available for the banks to be used in the channel's of trade.

By Mr. VREELAND:

Q. Are you familiar with the details of depositing in the postal savings bank?

A. Fairly so, I think. You mean the time necessary for withdrawal and the maximum amount of the deposit?

Q. Yes; the limitation upon deposits.

A. You mean up to 3,000?

Q. Yes.

A. Yes.

Q. Is it up to 3,000 they are permitted to deposit?

A. Yes; 1,000 in any one year and 3,000 is the maximum. Of course, trust accounts are sometimes created by which the maximum difficulty is eliminated by the depositor.

Q. Then how much detail is there to withdrawing funds? For example, in an ordinary time, the method of it?

A. The book has to be sent to Ottawa, together with the receipt, and if in order a check is returned to the post-office to which the depositor has applied.

Q. Would it have to be sent from Toronto?

A. Yes.

Q. In all cases down to Ottawa?

A. It is a federal savings bank, not a provincial.

Q. The holder of the book would have to present it at the post-office in Toronto with his application, and then it would have to go to Ottawa?

A. Yes; I think there would be no other way, and a savings-bank check would be sent back to the post-office for delivery to the depositor.

Q. Drawn upon what?

A. Drawn upon the Bank of Montreal, Ottawa.

Q. Payable at any of its branches?

A. Yes; or at the offices or branches of all other banks.

By Mr. BONYNGE:

Q. Have to send the book from the western country to Ottawa, too?

A. I believe so.

By Mr. WEEKS:

Q. The government issues these checks and books?

A. The Dominion government.

Q. Is the bank capital increasing rapidly under the mode of requirement?

A. You mean so far as circulation is concerned?

Q. Yes; so far as circulation is concerned.

A. The government and banks were a little fearful that during the grain-moving periods the sum might not be adequate, and to meet this the issue of temporary circulation, known as "emergency circulation," has been authorized.

Q. It looks as if in three or four or five years you might get to a point where you might need more capital or further means of getting circulation.

A. Yes; quite possibly, but when the situation arises it will be met either, I think, by additional circulation being permitted as against capital, capital and reserve, or gold deposits.

By Mr. BONYNGE:

Q. What amount of notes does your bank ordinarily have outstanding?

A. About 80 per cent.

Q. Eighty per cent of the authorized amount?

A. Of the paid-up capital.

Q. Of the paid-up capital?

A. Yes.

Mr. VREELAND. The capital since 1900, Mr. Weeks, has increased from $67,000,000 to $96,000,000 in round numbers; the surplus has increased from $34,000,000 to $74,000,000.

A. The increased emergency circulation now permitted is the amount of paid-up capital plus 15 per cent in excess of that amount together with 15 per cent of the amount of the reserve.

Mr. BONYNGE. When you can not loan any more money here in Toronto you stop discounting at all of your branches at the same time, I take it?

A. No; not necessarily. In times of stringency banks are inclined to insist upon the curtailment of loans more in the centers, perhaps, than in the rural districts, but, of course, at all times having regard to the character of the account concerned.

Q. And would not necessarily take the same course in regard to loans in the Saskatchewan district that you would in Toronto or Montreal?

A. No; you would have regard to the individual and his occupation. As, for instance, the idea of declining to loan a farmer money to buy cattle for grazing when he already had the pasture would be, I think, approaching waste, but, on the other hand, a banker would not hesitate when money was tight to insist that his large business customers must not ask to extend their operations.

Q. The reason I asked that question is to try to come to a conclusion whether your branch in the country will answer the purpose for the people as well as an independent bank?

A. I think it answers better, because, as I have stated, if any favoritism is to be shown by the bank to its customers, those in the country will doubtless be more generously dealt with than the business community in the larger centers.

By Mr. VREELAND.

Q. I notice in the statement made before your consolidation that you had at the time about $16,000,000 of deposits, and $14,000,000 of it was upon interest; the other was current deposits not bearing interest?

A. Yes.

Q. Do you think in the banks generally as large a proportion of deposits are interest-bearing deposits?

A. The proportion of interest-bearing deposits to the whole in the bank of which I am general manager is somewhat above the average, but I do not regard this altogether as an unfavorable feature, in that our branches are largely in the smaller places. Consequently we have fewer numbers relatively, I think, of temporary large free balances, but, on the other hand, the small deposit, upon which you do allow interest, is of a much more stable character and can be depended upon to remain, and perhaps grow, so that the amount of cash reserve that has to be carried as against this class of deposit is not so great.

By Mr. WEEKS:

Q. You mean you pay a higher rate?

A. No; 3 per cent is the maximum rate we pay. Banks have different ways of making up their govern-

ment return and sometimes use their current ledger balances containing loan company and other large accounts for the purposes of making up noninterest-bearing deposits, but we are absolutely careful in this respect and select every account in our current ledger that returns anything whatever in the shape of interest, and include the balance in the interest-bearing deposits.

By Mr. VREELAND:

Q. Notes of and checks on other banks, $681,190.59; you call that a cash item?

A. They are cleared on the day following the return, and actual cash is received for them, but, on the other hand, checks and notes drawn on the bank itself appear as a balance against them in the same clearing to which I refer, but one is not an offset as against the other in that under our clearing-house rules until such time as checks and notes have been actually accounted and paid for they are ear marked on behalf of the depositing bank, so that in the event of a bank which was a member of the clearing house failing, the securities of all other banks lodged that day and drawn on it would be returned to the depositing bank.

Q. Cash assets: due from other banks, $285,000 in Canada, $284,000 in United States, $33,000 in Great Britain; you call that a cash asset?

A. Subject to check without notice.

Q. Loans on call on government, municipal, and other bonds and stocks, $1,250,000?

A. Those are call loans.

Q. Where are they located?

A. In Toronto.

Q. Do you have a strictly call market here?

A. It can hardly be so designated. However, it is some years, with the exception of 1907, since call loans by solvent houses have not always been promptly met when asked for, and even during the stress of 1907 our best brokers asked no favors.

By Mr. BONYNGE:

Q. Did you include these items Mr. Vreeland has referred to in making up your 13 or 14 per cent reserve?

A. No.

Q. Those are in addition?

A. Yes; our immediately available assets usually amount to 35 or 40 per cent. When I referred to cash reserve I had in mind only government legals and specie. This is the Canadian acceptation of the term "cash."

By Mr. VREELAND:

Q. You have $2,835,000 as your issue of coins and Dominion notes?

A. Yes.

Q. As against deposits of $16,000,000 and note issue of $1,100,000?

A. Our reserves are usually rather larger at the end of January, since at that time of the year the grain has been realized upon, loans are paid off, and deposits somewhat increased.

Q. In the States quite a considerable portion of your items would be counted in the reserve—that is, due from other banks?

A. Yes; we have what we call quick assets, and the figures above the line of the statement that you are holding in your hand constitute such in our minds. Those assets are all supposed to be realizable upon immediately; on the other hand, even the deposit with the government for the redemption of the bank notes, although absolutely good, of course, could not be termed a quick asset, and consequently it appears below the line.

Q. You know where it is, so that you could go and get it?

A. That is it.

Q. You have an entry, "First-class bonds, $2,030,000;" those you own?

A. Those we own.

Q. Would that $2,000,000 include some first-class railroad bonds?

A. Yes; but chiefly municipal.

Q. Is it the policy of your banks generally to hold considerable portion of government or other first-class securities as secondary reserves?

A. Yes; should a bank require it, it would be likely to have arrangements abroad whereby that it could borrow money upon these securities at any time, and even though the markets of the world were not in a particularly comfortable position. An arrangement such as this, and which has been definitely arrived at, is practically as available in time of need as foreign balances.

By Mr. WEEKS:

Q. Do you own your own banking house?

A. Yes.

Q. Do you own your own branch houses?

A. We own quite a number.

Q. You own them?

A. We paid for them. We do rent at some places.

By Mr. VREELAND:

Q. What forms of commercial paper do you have?

A. General.

Q. You have, for instance, the indorsed notes such as we have across the border?

A. Yes; different classes. We have single-name paper to some extent in the farming communities; we have the indorsed accommodation paper; we have strictly commercial paper and what we term collateral paper under hypothecation.

Q. Your paper would correspond quite closely to our lines across the border?

A. I think so, except that your banks, I understand, specialize to some extent. By that I mean one institution, doubtless through the personnel of its directorate, has a leaning toward lumber accounts; and other leather accounts, merchants' accounts, etc.; at least that is as I understand your practice. We have no particular preference for any class of business other than what may obtain in the particular locality in which our branches are located.

Q. Do you have much paper following the lines of commercial paper in Great Britain and in France and Germany—that is, paper based upon the actual business transaction in the form of bills? For example, a manufacturer in Canada sells a bill of goods to a merchant, what would be the ordinary method by which your merchant

would pay his bills? Would he make arrangement with his banker and send a check, or would he accept a draft perhaps on time from the manufacturer?

A. Transactions vary in this respect. Some manufacturers prefer to draw upon their customers, particularly if the people to whom they sell are jobbers, while, on the other hand, some purchasers, if they are quite good, have a prejudice against accepting drafts and pay by check. In the majority of instances in Canada as yet our retail merchants are unable to pay cash, so that it is the practice rather than otherwise for the wholesaler or manufacturer to draw upon his customers.

By Mr. VREELAND:

Q. Suppose there is a general store in first-class credit would they be expected, and would it injure their credit, if they accepted time drafts from manufacturers of whom they buy goods or wholesalers?

A. No; it would not necessarily have any bearing upon his actual credit, unless the drafts were drawn for a time that would show that the buyer was unable to discount his purchases, which would of course show a weakness.

Q. Would the practice be for your merchant to accept drafts from the wholesaler and manufacturer upon time, or does he make arrangements with his banker so as to discount his bills and pay cash?

A. If he is in a strong position he would make arrangements with his banker for assistance to enable him to discount his purchases, but to do this he would require in all probability to be in a position to discount all his purchases and with only a comparatively small amount of assistance on the part of the bank.

Q. I am talking about a firm of first-class credit.

A. Yes; he would send his check.

Q. He would not be expected to accept drafts upon time?

A. No; because he would lose his discount.

Q. I am trying to get at whether you follow the lines of commercial paper we have in the States, or whether you follow the lines of commercial paper abroad?

A. An accommodation to a merchant by a bank to assist him in discounting his purchases would be styled by us accommodation paper, not commercial paper.

Q. Growing out of an actual commercial transaction?

A. Yes; even if growing out of an actual commercial transaction it would still be accommodation so far as the banker and purchasing customer are concerned.

Q. Bills discounted and advances current $13,000,000; that is the same item of loans here?

A. Yes.

Q. Those would be mostly made up of notes given for time, probably not to exceed four months? What is the usual time?

A. Four months would be about a maximum for ordinary commercial paper, although sometimes six months' terms are given. In a manufacturer's account the collateral he lodges and made by farmers is frequently drawn for one and two years.

Q. Do you follow the system of permitting overdrafts and charging interest upon the cash actually used?

A. As far as possible we avoid making loans by way of overdraft. We think, and so advise our branches, that it

is wholesome that if a man requires accommodation he should come to the bank and make arrangements for it, telling what he needs it for and fixing a specific date for repayment, and we think also that when a customer is compelled to explain to his banker why he needs the money the transaction, from his standpoint at least, usually has merit. We discourage the idea of overdrafts as far as it is practicable.

Q. You do not follow that system?

A. No.

Q. Of advancing and charging actual interest upon the amount used?

A. Occasionally, but not usually.

Q. What extent do you take single-name paper without security?

A. We are inclined to think our single-name paper is, as a rule, the strongest paper we hold, as it is loaned to farmers and through the small country branches, and the losses in the rural offices are in reality very small. Manufacturers, of course, are expected to supply collateral paper, and frequently pledge their goods under a section in the act known as No. 88.

Q. You have some excellent provisions in your law from the banker's standpoint here?

A. You are quite right. The act gives the bank a decided preference over other creditors if it avails itself of the protection possible, but in the long run I find difficulty in persuading myself that in many instances the privilege is not abused, and it would be better, even for itself, if the bank had not possessed it. The customer,

it is generally understood, is quite at liberty to use the goods thus pledged without reference to the bank, and it is almost unknown where criminal proceedings are instituted in this connection; but, on the other hand, where goods are warehoused and a shortage obtains prosecutions are relatively not infrequent.

Q. Of that twelve millions what proportion would you say was secured in any way?

A. Oh, possibly 90 per cent; but, as I told you before, I would regard perhaps the remaining 10 per cent as the safer.

Q. Is it the practice for banks to loan upon one name that is considered good?

A. It was not a few years ago, but banks have no longer any particular feeling in that respect, save that, of course, we always like two names rather than one if we can get them.

Q. To what extent do you require indorsements on notes?

A. There is no particular percentage; each transaction is dealt with on its merits, whether it be single or double name paper.

Q. Do you use it to a large extent?

A. Single name?

Q. Indorsed notes requiring the men to have somebody else indorse their notes.

A. Yes; in cities particularly the great bulk of the paper is either indorsed or otherwise secured.

Q. You have indorsed notes in general use, do you?

A. Yes.

Q. Especially in the cities?

A. Especially in the cities.

Q. Your lines of paper follow quite closely ours across the line?

A. Yes; I think so.

Q. You have the single-name paper that we use, a note given by a man for three or four or six months, whatever it may be?

A. Yes.

Q. Then you have the line of paper with two or three names on, perhaps with two indorsers besides the maker?

A. Not the paper such as is sold upon the bond market in your country; that is unknown in Canada, although some of your paper of this class is purchased when funds are plentiful by Canadian banks.

Q. Then you have the note with collateral security?

A. We do not lay the same stress I think upon names in Canada that you do under your system. We are rather more concerned about the nature of the transaction which is involved. Our wealthy people are limited in number, and their names are not frequently found on paper offered for discount, so that a Canadian banker has usually first to conclude that the nature of the proposed transaction with which the paper is associated is sound.

Q. Supposing some one in town doing business wants to enlarge his business and purchase an extra amount of goods.

A. Yes.

Q. He hasn't collateral to put up; he hasn't stocks or bonds.

A. Yes.

Q. Could you under your bank laws take security on his stock of goods?

A. If he were a manufacturer, wholesale shipper or dealer, you could; but you could not take security from an ordinary retail merchant except for past indebtedness, and then it would have to be done under the Ontario Mercantile act, or what we term a chattel mortgage, of which the world would have notice, and his credit would be practically ruined.

Q. You say to him: "We do not feel quite at liberty to advance this money on your own account; can you get someone that is responsible to indorse your note?"

A. No; we should not say that.

Q. How would he get his money?

A. He would not get his money from the bank, unless it was a temporary expedient and for a specific purpose, and the bank knew quite well that its advance would be repaid at a very early date, as otherwise, even though he supplied an indorser, we should be putting capital into his business rather than lending him money—something that Canadian bankers, I think, should decline to do.

Q. Assuming he merely wishes to discount a check and save the discount, and you think his credit is such you would want to loan it on his single name?

A. And he will be able to repay it at maturity?

Q. Yes.

A. The indorser will satisfy you then.

Q. You would say to him then: "Get some respectable indorser to back you up?"

A. Yes.

Q. You do that sort of business?

A. It is not frequent, though.

Q. It must be that a tradesman, as a rule, doesn't borrow money of you?

A. Only when he is able to discount his purchases with but relatively small assistance from the bank. We do not encourage the lending of money by our officers to a merchant who will be unable to meet the obligations at an early date, even though he did supply a good indorser.

Q. Because a small percentage of them can not half secure you?

A. Money should be put into the business not in the shape of a loan, but in the form of capital.

Q. How will he introduce capital; he is trying to get some capital to put in his business?

A. No; we do not think we should go into partnership with him.

Mr. WEEKS. You do not propose to furnish capital to go into a business?

A. No.

By Mr. HUBBELL:

Q. How do you judge his ability to pay; there is a signed statement?

A. That is not sufficient, even though it were an audited statement rather than a signed one, as the auditor's certificate usually certifies that the statement is correct as shown in the books, but having no regard to values.

Q. Isn't he liable if he makes a false statement?

A. Yes; he would be for obtaining money under false pretenses, but prosecutions rarely follow, and the misdemeanor is frequently difficult of proof.

Q. That is your ordinary judgment of him and not from any ordinary figures he gives you?

A. Yes; you have your judgment of the man and the statement he supplies.

Q. You require both?

A. I neglected, perhaps, to cover that ground fully. We should require, first, to know what the money was needed for; secondly, the character and capability of the borrower, and lastly, the security, either of himself or otherwise, that he had to offer.

Q. That is the ordinary method?

A. That is the ordinary method.

By Mr. VREELAND:

Q. Are bills to any considerable extent paid by means of time drafts? A manufacturer sells to a dry goods store a bill of goods, and makes a draft on them for two or three months?

A. Yes.

Q. Draft accepted?

A. Yes.

Q. Then the manufacturer takes the bill to the bank?

A. Yes.

Q. Is that thing done to any great extent?

A. Yes.

Mr. WEEKS. Don't you think it would be a good thing to develop that idea? When the manufacturer or the builder sells he draws on the purchaser, and you get the two names—you know it is a bona fide transaction.

A. Yes; that is what we endeavor to develop. We should like to discount for a manufacturer only paper drawn on the purchaser and for which value had been given and received; but we frequently discount all such paper for him and supply him with some capital in addition, although on the security of a pledge of his goods and perhaps an assignment of his book debts.

Mr. HUBBELL. Some of your firms refuse to give you their business paper and prefer to borrow on other firm paper?

A. Yes.

By Mr. VREELAND:

Q. Are there any defects in your system that you think should be corrected by additional legislation?

A. The government will probably see sufficient defects without our suggesting any, and, so far as our side of the question is concerned, we would be, I think, content to leave matters as they now stand.

Q. Do you think there should be any government laws as to examination, for example? You have no examinations?

A. You mean outside examinations?

Q. Yes.

A. External inspection?

Q. Yes.

A. I should certainly be in favor of inspection, either governmental or by the Canadian Bankers' Association, if it could be sufficiently thorough to do what it purports to do; but, on the other hand, if that can not be accomplished, and I am somewhat doubtful of its practicability,

then I should prefer no inspection whatever, as it is only inducing deception by the banks seemingly making a profession to the public that an examination of their affairs has been made and found sound, which might be entirely misleading. The system of routine has been very much improved in late years in banks, so that adjustments as between branches in a large bank can now be made in a few hours, whereas a few years ago it was a matter of weeks, so that the inspection of banks, if seriously undertaken, might, I think, be accomplished, although I am strongly of the opinion that it should be done through the Canadian Bankers' Association rather than the government.

Q. Do I understand you are in favor of an examination?

A. Yes, decidedly so, provided it can be competently and thoroughly done.

Q. If such an examination is made by accountants of character and reputation?

A. I should not value the certificate of a chartered accountant. He undoubtedly could add up the columns and balance the books correctly, but when it came to a discussion of the merits of the paper, which really is the final analysis as to the solvency or otherwise of a bank, I would not give twopence for the opinion of the ordinary accountant, unskilled and inexperienced in valuing paper, and to which he would be an absolute stranger.

Mr. WEEKS. In an examination, you do not expect that they will pass upon the character of the paper.

A. No.

CANADA PERMANENT MORTGAGE CORPORATION.

General statement for December 31, 1908.

LIABILITIES.		
Liabilities to the public:		
Deposits and accrued interest	$3,998,838.10	
Debentures (sterling) and accrued interest (1,976,514 9s. 4d.)	9,619,037.07	
Debentures (currency) and accrued interest	3,107,777.77	
Debenture stock and accrued interest (87,850 6s. 11d.)	427,538.35	
Sundry accounts	11,469.56	
		$17,164,660.85
Liabilities to shareholders:		
Capital stock	6,000,000.00	
Reserve fund	3,000,000.00	
Dividends unclaimed	63.90	
Dividend payable January 2, 1909	210,000.00	
Balance carried forward at credit of profit and loss	90,578.66	
		9,300,642.56
		26,465,303.41

ASSETS.	
Mortgages on real estate	$23,209,639.79
Advances on bonds and stocks	952,486.36
Municipal debentures, bonds, and other securities	620,359.20
Office premises (Toronto, Winnipeg, Regina, and St. John, New Brunswick)	398,371.19
Cash on hand and in banks	1,284,446.87
	26,465,303.41

R. S. HUDSON,
JOHN MASSEY,
Joint General Managers.

We beg to report that we have made an audit of the accounts, and examined the vouchers and securities of the Canada Permanent Mortgage Corporation for the year 1908. We certify the accompanying statement is a true exhibit of the corporation's affairs as shown by the books as at December 31, 1908.

A. E. OSLER, A. C. A.,
HENRY BARBER, F. S. A. A. (Eng.),
Auditors.

TORONTO, *January 16, 1909.*

Interview with George H. Smith, Secretary of the Canada Permanent Mortgage Corporation.

By Mr. VREELAND:

Q. Mr. Smith, what is your bank?

A. Our corporation is not a bank.

Q. It is a form of bank?

A. We do not call it a bank.

Q. I take it you receive deposits?

A. We receive deposits.

Q. And loan them?

A. And loan them, primarily on real-estate securities. The name of the company is the Canada Permanent Mortgage Corporation, of which I am secretary.

Q. Do you have debentures of your own to sell against these loans on which you guarantee the payment of the loan and interest?

A. We issue debentures, but not against any particular loan or any particular number of loans.

Q. They are general?

A. General debentures.

Q. With your responsibility added to them?

A. With our promise to pay.

Mr. WEEKS. What rate of interest do you pay on deposits?

A. Three and one-half per cent.

Mr. VREELAND. Have you a statement with you of your bank?

A. Yes.

By Mr. WEEKS:

Q. Are these deposits subject to call?

A. Subject to thirty days' notice.

Q. They are not subject to check at all?

A. They are subject to check with that reservation.

By Mr. BONYNGE:

Q. Have you ever enforced the thirty-day notice?

A. We never have.

Q. Are there many such companies as your company in existence?

A. Throughout Canada they vary slightly; there are some which do not take deposits, but only issue debentures. Of all classes, I should say there are seventy or eighty.

Q. You are a member of the Bankers' Association?

A. No.

Mr. WEEKS. Do you loan on all kinds of real estate or do you confine it to some particular class?

A. No; we make no restrictions. The application is considered on its merits. There are many classes, of course, upon which we should be a good deal more careful in loaning than we should upon others.

Mr. BONYNGE. You loan upon urban and farm property?

A. Both.

Mr. WEEKS. Do you know how much money is deposited in Canada in such companies as you represent?

A. The statement that the government issues from the returns made to it includes not only such companies as ours, but the trust companies as well, so that I can not answer that definitely.

Mr. VREELAND. The government issues a separate report of that branch of banking?

A. We have a report including the building associations, loan companies, land companies, and trust companies. The total deposits by the last statement of all these companies, including the trust companies, are $22,953,000—about $23,000,000.

Mr. BONYNGE. Is there a general statute governing the organization of such companies as yours, or do you get special charters?

A. There is a general statute, and a few companies have special charters, but the special charters are very much along the line of the general statute.

By Mr. VREELAND:

Q. Don't you have to get a special charter from Parliament in all cases before you can commence business?

A. No; generally speaking that is so. But in Ontario, for instance, there was, some years ago, an act under which some of the companies were incorporated merely by order in council. Some of these companies are very old. A company coming up for incorporation now would have to get a special act.

Q. They are separate institutions altogether that were incorporated under a general act?

A. Yes; under a general act. You were speaking of the deposits and debentures. I might perhaps say that both under the general act and under any special act that a company might have it would be limited as to the amount it might receive in either of these ways. The total amount that any such company as ours can receive on deposit is limited to the amount of its paid-up capital. It is not permitted to receive them to an indefinite extent.

Q. Your deposits can only be equal to your capital?

A. Yes; to the capital actually paid in.

Q. Not even including your reserve?

A. Not even including our reserve.

Q. Your deposits are limited to $6,000,000?

A. Our deposits are limited to $6,000,000, but the total liabilities, including both the deposits and debentures, are limited to four times the paid-up capital. You can see from our statement the larger proportion of our liabilities is debenture money.

Q. When you receive deposits what rate of interest do you pay?

A. Three and one-half per cent.

Q. What do you give your customer; do you have a book or a certificate of deposit?

A. Generally speaking, a book. He may have a certificate of deposit if he prefers it.

Q. What time do you give yourself for notice for redemption?

A. We reserve the right of thirty days' notice. As I stated in reply to some gentleman's inquiry a few moments ago, we have never required that.

Q. Always pay cash?

A. Yes.

Q. As a cash asset you have on hand money to the amount of a million and a quarter in this statement?

A. Yes.

Mr. BONYNGE. Is your cash actually in your vault, or on deposit at other banks?

A. Most of it deposited with the banks.

By Mr. VREELAND:

Q. You have liabilities here of $17,000,000?

A. Yes; we are well within our statutory limitation.

Q. All of it payable at thirty days' notice?

A. No; the debentures are for various terms.

Q. It is only your deposits that are payable that way?

A. Yes.

Q. Then you carry cash of about 25 per cent against your deposits?

A. The actual cash exceeds 25 per cent, but we also have other quick assets.

By Mr. BONYNGE:

Q. You have an actual cash reserve of more than 25 per cent?

A. Yes; and other quick assets in the shape of bonds and loans on call.

Q. Do you loan upon unimproved property?

A. No; it is not our practice to do so.

Q. What per cent of value do you expect to loan, or don't you have any fixed proportion? Does the law make any limitations upon your loans?

A. No.

Q. It is just your own regulations?

A. Yes.

Q. Upon improved city property, say, in Toronto, what per cent of the value would you loan?

A. Very rarely over 50 per cent.

Q. And upon property in smaller towns you perhaps wouldn't go so high?

A. No; from 30 to 40 per cent, as a rule.

Q. And for what time are these mortgages made—made payable at a year?

A. Various terms. No; generally the terms are from five to ten years, with a condition for a small portion to be repaid each year, or each half year.

Q. You do not follow the life-insurance custom of making them all payable in a year, with the understanding they can run upon the payment of interest?

A. No.

Q. How many of these companies are there in Canada?

A. In the neighborhood of 70, I think.

Q. How old is your company?

A. We are a consolidation, about ten years ago, of four companies, the oldest of which was established in 1855.

Q. Are you operating under a special charter, or under a general statute?

A. Special charter.

Mr. HUBBELL. Do you have a large force of clerks?

A. Yes; we have in addition to our office here five other offices throughout the Dominion. I suppose we have a staff in the neighborhood of a hundred altogether, perhaps more.

By Mr. VREELAND:

Q. You pay a 7 per cent dividend?

A. We paid 7 per cent last year; this year we increased it to 8 per cent.

Q. With deposits of about $4,000,000 you held cash to the amount of a million and a quarter?

A. Yes.

Q. And your capital and reserve amount to $9,000,000?

A. Yes.

CANADIAN BANK OF COMMERCE.

General statement 30th November, 1908.

LIABILITIES.

Notes of the bank in circulation		$9,640,845.68
Deposits not bearing interest	$22,231,129.05	
Deposits bearing interest, including interest accrued to date	72,806,666.97	
		95,037,796.02
Balances due to other banks in Canada		165,408.36
Balances due to other banks in foreign countries		1,131,386.64
Dividends unpaid		1,532.69
Dividend No. 87, payable December 1		200,000.00
Capital paid up	10,000,000.00	
Rest	6,000,000.00	
Balance of profit and loss account carried forward	161,244.88	
		16,161,244.88
		122,338,214.27

ASSETS.

Coin and bullion	$4,584,049.06	
Dominion notes	8,503,293.25	
		$13,087,342.31
Balances due by other banks in Canada	11,850.55	
Balances due by agents of the bank in the United Kingdom	6,750,669.18	
Balances due by other banks in foreign countries	3,191,278.88	
Notes of and cheques on other banks	4,344,762.50	
		14,298,561.11
Call and short loans in Canada		7,314,181.53
Call and short loans in the United States		10,622 703.14
Government bonds, municipal and other securities		4,673 390.71
Deposit with Dominion government for security of note circulation		450 000.00
		50,446,178.80
Loans to other banks in Canada, secured		1,061,252.09
Other current loans and discounts		68,694,649.07
Overdue debts (loss fully provided for)		143,648.74
Real estate (other than bank premises)		36,325.44
Mortgages		27,102.91
Bank premises		1,727,444.33
Other assets		201,612.89
		122,338,214.27

ALEXANDER LAIRD,
General Manager.

Interview with Massey Morris, Local Manager of the Canadian Bank of Commerce at Toronto.

By Mr. VREELAND:

Q. I assume, Mr. Morris, the management of your part of the bank here in the city would be like the management of any bank; you meet the customers and receive all deposits and make the loans, and then your report goes to the general office here as it would if you were manager somewhere else?

A. Exactly, yes; practically we are treated as if we were hundreds or thousands of miles away. Everything of the kind has to be put in the form of correspondence.

Q. You conduct your business with the head office by correspondence?

A. Yes; of course, here we have the advantage of being able to discuss things verbally more frequently than when we are at a distance. After any verbal discussion of that kind the decision arrived at has to be placed on record in the correspondence.

Q. Then it is of not much matter here what your limitation, for instance, in making loans is, because the matter can be so quickly laid before the general manager?

A. Of course, we can get a decision quickly.

By Mr. BONYNGE:

Q. How many branches are there in the city of Toronto?

A. Of ours?

Q. Yes.

A. Up to a short time ago we had ten. I think there are ten or twelve. They are organizing two new ones.

By Mr. VREELAND:

Q. They report to the head office, or to you?

A. To the head office, just the same as others. They are separate branches.

Q. I wish you would tell us, Mr. Morris, how money is sent from various parts of the country to other parts, and about the expense of it and the details of its management.

A. We have to send from here, or from other circulation points west where circulation is accumulated, notes of the bank as required by the other branches; for instance, if our branch at Barrie, which is 60 miles north of this, runs short of our own currency, we supply it from here, send the bills up usually by registered mail, and insure them. That is our method in the case of our own notes. The notes we receive from Barrie of banks which haven't any branches there, and which they can not get redeemed there, they send down to us and we send them in to the different banks here for redemption.

Q. That is the method with your branches?

A. Yes.

Q. I was speaking of exchange generally. Suppose I want to send $1,000 to some point in the Far West and applied here to the Bank of Commerce to send it?

A. We just issue a draft on the branch concerned and that branch has to look after the payment of it, but we keep the branches in funds for the payment of these demands upon them in the way I have described.

Q. If I want to send $1,000 out into the West you would give me a draft upon your nearest branch?

A. Yes; suppose you were going to Vancouver and wanted to take or send $1,000, we should give you a draft on Vancouver and the branch there would cash it.

By Mr. BONYNGE:

Q. Suppose I was a depositor in the Bank of Commerce and was out at Vancouver and wanted to get $1,000, couldn't I go to the branch and present a check on the Bank of Commerce and have it cashed there?

A. No; they would not know about you.

Q. If I was identified as being the party?

A. If you were identified and they were satisfied of the goodness of the check; certainly.

By Mr. VREELAND:

Q. You have authority as manager of the Toronto branch to accept deposits to any amount, do you not?

A. Yes; no limit upon the deposit side.

Q. How large a loan would you make without speaking or writing Mr. Laird?

A. Five thousand dollars is supposed to be the limit.

Q. I suppose that in the other branches in the city the limit would be even smaller than that?

A. Yes.

Q. Perhaps not over $1,000?

A. I think in some of the smaller branches the limit is even smaller than that. Practically no loaning business is done at the city branches. It is mostly all deposit business.

Q. What would you charge me for a draft upon your branch at Vancouver?

A. In some cases we might not charge anything where a customer had a nice account with us. We charge from an eighth to a quarter of 1 per cent.

By Mr. BONYNGE:

Q. Suppose I was a customer of a bank and sent my check from Toronto out to Vancouver in payment of a bill I owed in Vancouver, and that check was deposited in the branch bank, do you charge for the collection of the check?

A. Yes; certainly.

Q. How much would you charge for the collection of the check?

A. Probably the same, an eighth to a quarter.

Mr. WEEKS. Would you charge any customer who kept a deposit here for any draft?

A. Yes; we practically charge for everything. If we do not charge we expect to get an equivalent. We have to charge in some form or another. The customers will often make arrangements to keep a certain balance to their credit as an equivalent for the privilege of getting their checks cashed free of charge, or they will pay a fixed lump sum per month or per annum, or the account may be of so valuable of a character as to warrant our giving the privilege to them. In the absence of some arrangement of that kind a charge is made upon everything.

Mr. VREELAND. In the case of customers who keep a very small balance with you and not a remunerative balance, do you make a yearly charge for it?

A. In some cases; yes. A monthly charge of 50 cents.

By Mr. WEEKS:

Q. Suppose I have an account here of $10,000 in the bank and I want to pay a bill in Winnipeg, and I come in here with my check drawn on you for $1,000 and ask you for your check in place of it?

A. We do not do that. We do not issue to depositors a cashier's check.

Q. What would you issue?

A. We would probably give you a draft on Winnipeg.

Q. If you gave a draft on Winnipeg, would you charge me for that?

A. Yes.

Q. Wouldn't you charge that direct to my account at once?

A. Yes.

Q. I would be drawing out my own money?

A. Yes.

Q. You would be charging me for drawing my own money?

A. Drawing it out in Winnipeg.

Q. I am drawing out my money here?

A. If you draw it out here there is no charge on it.

Q. But I draw it out in that way when you give me a check on Winnipeg?

A. No; if you come in and get your check certified against your account we debit it to you. That is all we have to do with it. We have no further concern as to what happens to it until it comes back again and we have to pay it. But if you come in and ask us to certify your check and pay it up at Winnipeg, then we charge you for it.

By Mr. HUBBELL:

Q. Suppose you are shipping money to the West, you wouldn't pay any premium?

A. No.

Q. You do not buy and sell exchange on the West?

A. No; we do not on Winnipeg.

Mr. WEEKS. Do your receipts from that sort of service amount to very much?

A. In the aggregate it will amount to quite a little sum.

By Mr. HUBBELL:

Q. When you receive a deposit from a customer here in Toronto containing checks all over the United States, do you immediately give him credit for those items, or is it dependent upon who the customer is?

A. Dependent upon who the customer is, of course. If it is a customer in good standing, we have no hesitation in giving him credit at once.

Q. You follow the collection of these checks by number?

A. Yes—I do not exactly catch the drift of your inquiry.

Q. If I should send $5,000 worth of checks to Cleveland and I had 30 checks in that lot all over Ohio, you would want to have a report on each one of those checks?

A. We would want to get returns on them.

Q. You would want an individual report upon each one of the checks?

A. No; we follow in a general way and see they are all paid. We have to check them off when the returns come in.

Q. Most of the checks we receive from Canada are numbered, and some of the banks require a report by us on these checks.

A. Yes; they are numbered for the purpose of reference. When the remittance comes in the payment is marked against the amount of the check.

Interview with Alexander Laird; General Manager of the Canadian Bank of Commerce.

By Mr. VREELAND:

Q. Mr. Laird, tell us about your branch banks here in the city. I understand Mr. Morris is at the head of your Toronto branch?

A. Yes.

Q. I suppose the general officers of the company attend to them themselves at the home office?

A. Yes.

Q. You treat the branch here as if it were a Montreal branch—that is, the reports from your branches here come in to the general officers the same as if from Montreal?

A. Yes.

Q. How many branches are there of the Canadian Bank of Commerce?

A. I think 204.

Q. That is, this morning?

A. That is, this morning.

Q. What cash reserve would you say banks carry on an average?

A. I think an average of about 10 per cent, or perhaps a little higher.

Q. You yourself carry a little more than that?

A. We do not; we try to keep it about 10 per cent. We are not in favor, of course, of an arbitrary and fixed reserve. We think for the proper conduct of the business that we should keep it in reasonably liquid shape, and in our experience we find that about 10 per cent makes

us quite comfortable, and we do not need to bother from day to day about the cash reserve. That is, the actual cash reserve.

Q. I see you put down here "coin and bullion"; what do you mean by "bullion"?

A. That is anything that has got an assay stamp on it. We should have bullion in Seattle from the Klondike.

Q. Are these bars stamped?

A. Yes.

Q. What do you do with them?

A. Just keep them, as they do in New York banks, in that shape rather than have the eagles and double eagles.

Q. For export business?

A. No; primarily for our reserves, though they might be used for export business; but we do not do very much of that business.

Q. What would you do with stamped bars in place of cash if you were getting them?

A. All we have to do is to turn them in to the treasury in Seattle and we get treasury notes for these bars; and the same way in San Francisco. In San Francisco we may have some bars, and when you come to meet adverse clearing-house balances you simply hand in these bars and get your gold certificate.

Q. You recognize gold bars as being pretty close to cash?

A. Yes; I should think so.

Q. You seem to have very much more than 10 per cent in this statement. This is the 13th of November, 1908.

A. Yes; of course there is a natural disposition on the part of any bank at the end of the year to show a good statement, not that we look for any better showing in that direction, certainly we did not seek to make it last year, but it did seem at the end that we had a great deal more cash than we had figured on. I should not at any time consider a statement showing 10 per cent in cash unfavorable to us at all. I should think a great many banks would not consider it advisable to show more.

Q. Of your 10 per cent cash reserve, for instance, how much money have you on deposit in New York?

A. We do not count that.

Q. Or in Montreal?

A. We do not count that.

Q. You do not count that?

A. No; it must be actual cash, gold or Dominion notes. It is the law.

Q. Who has the say under the law?

A. The Dominion government.

Q. I did not know that they had any laws about reserves.

A. Yes; they insist upon our having 40 per cent of Dominion notes. We have more than 40 per cent as a rule.

Q. What reserve does your law require you to keep—what cash reserve?

A. They do not restrict us. That is a matter that is regulated by ourselves. The Canadian Bankers' Association has said that, in their opinion, there should be a uniformity of practice in the keeping of reserves.

Q. That is what your association says?

A. Yes.

Q. I do not understand there is any Dominion law requiring any record of reserves?

A. No.

Q. But of whatever reserve you do carry, 40 per cent must be in Dominion notes?

A. Yes.

Q. In your cash reserve you only include actual cash on hand at your branches?

A. Yes.

Q. You say here, "November, 1908, balances due by agents of the bank in the United Kingdom, $6,750,000;" what sort of agents were those?

A. Our own branch and our agents, such as the Bank of Scotland.

Q. These are all your agents?

A. The Bank of England, too, would be included.

Q. Any money that you have on deposit with the Bank of England?

A. Yes.

Q. Or with the Bank of Scotland?

A. Yes.

Q. Or any other English bank that acted as your agent?

A. Yes.

Q. Then "balances due by other banks, $3,191,000"?

A. Other foreign banks.

Q. Yes; and I notice you say, "Notes and checks on other banks, $4,300,000"; you do not call that cash?

A. Actual cash; no.

Q. Yet you can get cash by presenting them?

A. Yes; in the clearings the next day. But against that there must be a considerable amount in the hands of the other banks.

Q. I notice you have $7,000,000 of call and short loans. What do you mean by short loans?

A. Ten-day, fifteen-day, or thirty-day loans would be short loans.

Q. Thirty-day loans?

A. Yes; or less.

Q. Where are your call loans?

A. Some in Canada; mostly in New York. I mean strictly call loans. The money we have at New York or London would be strictly on call. There is not very much money with stock brokers in Toronto or Montreal that we would regard as strictly call. I mean that it is not as available as in New York.

Q. I see you carry about $4,500,000 of government bonds other than municipal securities; do you and the banks generally make a practice of carrying more or less government bonds and other similar securities?

A. Yes; I think they do.

Q, For what purpose?

A. We probably would have more than some of the other banks, except the Bank of Montreal, because of our connection with the Canadian Northern Railway Company, which has a good many bonds to sell with government guaranties. As to municipal bonds, with so many branches we are often asked to help the municipalities in the negotiation of their bonds; sometimes we buy them

out and out, or if the amount is large we purchase them in combination with others. They would be held by us until such time as we could dispose of them, or if we thought the bonds extra good we might send them over to London and might watch our opportunity to sell them there, or if we did not sell them we might hold them as first-class collateral against any acceptance credit which we might get.

Q. Then it is not for the purpose of carrying out any banking theory that you carry any securities of that kind?

A. No.

Q. You do not intend them as a secondary reserve?

A. Yes; something of that kind. One important feature in connection with our own business is that we try to put our securities in such shape that we can have the use of them should an emergency arise, either by selling them or by drawing against them by bills of exchange. In the meantime we are getting interest, and they form a substantial reserve against any liabilities that we may have.

By Mr. BONYNGE:

Q. Do you ever buy for your own use the bonds of an industrial concern?

A. No.

Q. And sell the bonds afterwards?

A. No; we have not gone into underwritings of that kind.

By Mr. WEEKS:

Q. Do you consider the reserves kept by banks in Canada sufficient for the conditions that prevail here?

A. Yes; I should consider the reserves kept by our first-class banks, every one of them, quite sufficient for any

demand that is likely to be made upon them. The fact is that the banker here is a banker who knows his business, he has got that business to serve, and it would be very foolish for him not to protect himself in every way. I do do not believe in an arbitrary fixed reserve. I think the banker is the best judge as to how much he should have and where he should have it.

Q. Do you consider the methods of issuing circulation sufficient to protect the public against any overissue or possible case of fraud that may arise?

A. Yes; I do not see how it is possible to issue circulation beyond a certain amount. There is daily redemption, and I can not conceive how you could suddenly put into circulation a considerable amount of the bills of any bank.

Q. Do you believe that better results would be obtained if outside inspection of banks were made in Canada?

A. As a banker of thirty-five years' standing, and one who had gone through every department of the bank, including the inspection department, and who knows what is involved in the inspection of a bank, I can not understand for a moment how any one can suppose that an outside auditor could possibly give a correct report on the standing of a bank, or keep so in touch with all the business as to make it possible for him to certify that a bank is solvent. What we want more than anything else is some one that will tell us when we get hold of a piece of paper that is not very good, or a customer who is not very prosperous. An auditor can not go through a bank and form a reliable judgment about the securities, or tell whether

our customers are making a success of their business. As far as the matter of inspecting the securities is concerned, I can not imagine how any auditor, or body of auditors, could examine a bank such as we have, with 204 branches, when you find that with the division and subdivision of the work it keeps us going all the year and every day of the year to properly supervise this important work.

Q. The theory is that the auditor or the manager would certify to the correctness of the returns that are made to the government, not that he would pass on the value of paper, though he might possibly want to inspect the loans of someone whom he knew was borrowing largely elsewhere.

A. Yes; if he were able to get that information and put it in shape I think that it would do some good, but how is it possible to judge the business we do? I am perfectly satisfied that a man such as our finance minister in Canada would not know from the banker's standpoint what was good or bad business. Our system is a little different from what you have on the other side. We undertake to do all the business of a merchant. We will not divide an account. There are very few divided accounts in Canada, and if we did divide an account with another bank we should do it in a different way, and should ask and receive information from the other bank from time to time which would be a check on the customer. I would not take a divided account at all unless our relations with the bank with which I was dividing the account were such that we could talk over from time to time how the account was running.

Mr. VREELAND. Do you also know if a customer borrows in more than one place?

A. At the beginning of the year we sit down and consider what our customers are entitled to as a full credit for their business, and we decide what we should give them. If a customer is to get $50,000 during the year we promise to supply him with that amount in the ordinary course of his business and during his season. We are always ready to respond to that call.

By Mr. WEEKS:

Q. Are you satisfied with the postal savings banks as the policy is now carried out by the Canadian government?

A. I do not know just now that there is anything to say on that subject. I think it is wise to have postal savings banks, although the banks cover the country pretty thoroughly. There is not a village or a hamlet of any great importance which has not got a bank, and we do not hear very much call for the postal savings banks. I do not know that I would say they should be withdrawn altogether, but I do think that the government should not take that money and pay more than the borrowing rules in London for it. It seems hardly economical for the government to pay to-day practically 3½ per cent to a farmer when they could probably get it for about 3 per cent in London. When you have to sell your securities on the basis of a yield of 2.95 per cent it is absurd to pay over 3½ per cent for money. That is the rate, including the cost of administration.

Q. Which would cost about one-half of 1 per cent?

A. The administration would cost about one-half of 1 per cent.

Q. They estimate in this encyclopedia three-quarters?

A. I have always considered it as being about one-half of 1 per cent. They come into competition with us and are paying more for the money than they should, and taking it out of the ordinary commercial banks of the country. We could take that money and employ it in the business of the country. They simply add it to the unfunded debt of the government.

Q. Unfunded debt?

A. Yes.

Q. Payable on demand?

A. Yes.

By Mr. VREELAND:

Q. I notice that you have to report all kinds of moneys unclaimed for more than five years?

A. Yes.

Q. Does the government take a benevolent interest in that fund with a view of acquiring it in time?

A. There are indications from time to time that they would like to lay hands on it.

Q. Do they, as a matter of fact?

A. They have not done so yet, except in case of an insolvent bank.

Q. Does the government admit a liability for accounts taken of that kind?

A. They have got to admit liability, and if they take the funds they are responsible for the debt, deposit, unpaid draft, or deposit receipt.

Q. Who gets the benefit of note issues which are lost and burned or mislaid?

A. The bank would get the profit in that case.

Q. That must be quite an item of profit?

A. I do not think there is as much profit as one would suppose.

Mr. KNIGHT. It amounts to a fraction of one-half of 1 per cent; it is less than a half of 1 per cent.

By Mr. BONYNGE:

Q. Do any of the chartered banks engage in underwritings?

A. No; not to any extent. Underwriting what?

Q. Railroads or industrial concerns?

A. Railroads?

Q. Yes.

A. Yes; certainly. I thought you had reference to industrial concerns.

Q. No.

A. Yes; and they are quite glad to do it.

THE IMPERIAL BANK OF CANADA.

Thirty-fourth annual balance sheet.

ASSETS.	
Gold and silver coin	$1,143,947.82
Dominion government notes	7,337,972.00
Deposit with Dominion government for note circulation	195,293.52
Notes of and checks on other banks	1,941,611.48
Loans to other banks in Canada secured, including bills rediscounted	450,278.46
Balance due from other banks in Canada	610,945.60
Balance due from agents in United Kingdom	115,758.53
Balance due from agents in foreign countries	2,491,315.97
Dominion and provincial government securities	819,241.97
Loans to provincial governments	819,199.09
Canadian municipal securities and British or foreign or colonial public securities other than Canadian	2,036,977.50
Railway and other bonds, debentures, and stocks	1,020,506.60
Call and short loans on stocks and bonds in Canada	3,338,253.71
Other current loans, discounts, and advances	26,571,958.46
Overdue debts (loss provided for)	21,540.95
Real estate (other than bank premises)	26,455.38
Mortgages on real estate sold by the bank	92,457.91
Bank premises, including safes, vaults, and office furniture at head office and branches	1,200,000.00
Other assets not included under foregoing heads	20,351.25
	50,254,066.20

LIABILITIES.		
Notes of the bank in circulation		$3,115,100.00
Deposits not bearing interest		6,517,731.82
Deposits bearing interest (including interest accrued to date)		29,545,784.19
Deposits by other banks in Canada		252,037.82
Total liabilities to the public		39,430,653.83
Capital stock (paid up)		5,000,000.00
Reserve fund		5,000,000.00
Dividend No. 75 (payable May 1 1909) for three months at the rate of 11 per cent per annum		137,500.00
Rebates on bills discounted		85,934.11
Balance of profit and loss account carried forward		599,978.26
		50,254,066.20

Interview with Daniel R. Wilkie, General Manager of the Imperial Bank of Canada.

By Mr. VREELAND:

Q. I have asked several of these gentlemen who have been here these questions somewhat as an expression of a personal opinion, particularly about reserves and the postal savings banks, and one or two other questions. I would like to know what you believe about reserves. Do you think your reserves are sufficient to properly safeguard the conditions of the banks?

A. If your inquiry refers to Imperial Bank of Canada, I certainly think they are. Generally speaking, the cash reserves of the majority of Canadian banks might be larger.

Q. Do you think that a fixed reserve under the law is a desirable thing, or should that be left to the bank?

A. I think it should be left to the bank. A fixed reserve would probably be more harmful than otherwise.

Q. You use your reserve, of course—a portion of it—in case of distress?

A. There is a so-called "fixed reserve" as regards the amount of legal tenders (government notes) which we are obliged to carry, but it is not fixed as regards any percentage of liabilities. A certain proportion of our cash reserves must be in government legal-tender notes, and our object during distress would be to increase them and realize on other liquid assets. During a period of stringency or expansion in trade we are obliged to draw upon our reserves other than cash reserves; these latter we endeavor to maintain through storm or sunshine.

Q. Your idea is that the reserve in normal times should be about 20 per cent, is it not?

A. If you include in reserves balances due by other banks in Canada, in New York, and in London, I would not be satisfied with 20 per cent.

Q. How much cash reserve do you average carrying in the bank?

A. We carry as a rule about $7,000,000 of actual cash (gold and government notes), besides balances in New York, London, and elsewhere, amounting all the way from $2,000,000 to $4,000,000. I see that on the 31st of August, 1909, we had $7,500,000 in actual cash (gold and government notes), and that we had $5,600,000 in balances due by New York, London, and elsewhere. That made 33 per cent of our liabilities. I do not say that this amount is necessary, as much depends on financial and political conditions from time to time. We might, for example, reduce this proportion during high rates for money in New York, and take advantage of the demand to lend a portion of the amount in that market.

Q. You loan that through your New York banks?

A. We loan that through our New York banks.

Q. Do you think that your system of inspection is sufficient to care for your banks, or would you prefer a public inspection—governmental inspection?

A. I look with horror upon a public inspection. I do not see how, physically, it would be possible to carry out a thorough inspection of the head offices and branches of banks extending from the Atlantic to the Pacific, and with further branches in San Francisco, New Orleans, London

(England), France, Cuba, Jamaica, Porto Rico, and elsewhere. It would be impossible for any public officer to inspect that number effectively; it would take a magician to carry out the inspection; it would be a farce. It would be misleading, and do more harm than good.

Q. Do you think the postal savings bank system in Canada is a good thing for the people of Canada?

A. I do, if it were not abused by the payment of an excessive rate of interest by the government, which should be able to attract deposits and serve every useful purpose intended by the offer of a rate of interest not exceeding 2½ per cent per annum. It is to be borne in mind that the moneys on deposit with the government are withdrawn from the trading capital of the country. The government pays 3 per cent on post-office savings accounts.

Q. Plus the cost?

A. Plus the cost of management.

Q. Do you hear expressions of opinion from people who use these savings banks as to their desire to have that restricted method of depositing their money?

A. One does not hear much from the people. One great inducement to make use of the post-office is the absolute secrecy observed, encouraging evasions and improper secretions as well as legitimate savings, which latter of course form the bulk of the deposits. A man who is a depositor in the government savings bank is the last man to say anything about it.

By Mr. BONYNGE:

Q. There is no way of reaching it?

A. There is no way of reaching it.

Q. Other than by legal process?

A. Other than by legal process. The government will not give the information. It can not be had. The amount of money that can be deposited in any one name is limited.

By Mr. WEEKS:

Q. To what amount?

A. I think it is $1,000. The government policy is to encourage the lending of money by the people to the government for permanent works, canals, railway subsidies, public buildings—everything. It all goes into a pool, and until two years ago there was actually no cash reserve held against the liability. The government held no reserve. They now hold a reserve in gold or Canadian securities, guaranteed by the Imperial Government, equal to 10 per cent of the deposits.

Q. Of what amount?

A. Ten per cent, but in order to acquire that reserve they cut down the reserve against government notes in circulation, reducing that reserve from 25 per cent in cash or imperial securities upon a limit of $20,000,000 to 25 per cent upon a limit of $30,000,000.

Q. So the result was there was no current reserve against their double liabilities?

A. A reserve of 25 per cent in cash or debentures guaranteed by the Imperial Government as against government notes in circulation, etc., and of 10 per cent in cash or imperial debentures against deposits in post-office savings banks.

Q. You think your circulation is properly protected against fraud and misrepresentation?

A. No, it is not. There ought to be better control over the power that individual banks have of creating their own currency. Under the present conditions a bank authorized to issue, we will say, $1,000,000 of notes, in order to keep its branches supplied with a sufficient supply of notes, will have on hand ready for circulation from $2,000,000 to $3,000,000, but there is nothing to prevent their having $4,000,000 or $5,000,000. I do not think any advantage has been taken of the privilege, but the danger is apparent. I should like to see some control by the Bankers' Association of the total creation. Any excessive issue would probably occur during the last days of an institution, when demands of depositors would have to be satisfied.

Mr. BONYNGE. The last resort?

A. Yes; and unintentionally, too. The managers of local branches can not tell what the total amount of notes in circulation might be at any one time over the whole system.

By Mr. HUBBELL:

Q. Could it be made use of with these branches during a time of stress and panic and then be rectified within a few days?

A. Yes.

By Mr. VREELAND:

Q. What was the purpose urged in passing the act of 1908 providing for additional circulation?

A. The reason was this: That during a few months of the year the amount of currency required to move the crops proved to be in excess of the authorized limit of circulation.

Q. What year was that?

A. It was 1906, and was the result of the crop movement of that year. At the same time the currency of the United States was limited, so that we could not obtain United States currency, and were constantly running the risk of being heavily fined for overcirculation, although unable to supply our requirements from any other source. The government at our suggestion came to the relief of the country and of the banks, and on terms permitted us to exceed our authorized circulation during four months of the year.

Q. In 1907 your Canada capital was?

A. Was $95,995,000, and the note issue was $77,000,000.

Q. What month is that; December 31?

A. October and November. The end of October is the crucial point.

Q. You got up, then, $11,000,000?

A. Eleven millions spread over 2,000 branches, or about $5,000 for each branch.

Q. It is only in the crop-moving part of the country that you would use it—would need your cash?

A. It wouldn't make any difference. That is all that would be left for any one branch, an average of an additional $5,000. It is worse than that, because every branch has to be furnished with an ample supply at all times for till money.

Q. You did not have a central bank to distribute it among all your branches?

A. The head office of every bank directs the distribution of its notes among its branches.

Q. You send it wherever you wish?

A. We send it to all our branches as they require it.

Q. You don't have to?

A. Yes; we have to respond to their requirements.

Q. Suppose there were $11,000,000 of additional currency needed to move crops, you would send it to the crop-moving part of the country, you would not sent it where it was not needed?

A. No; but we should have to keep these other points supplied with circulation. We could not earmark $11,000,000 off the extra circulation. We should send the circulation wherever it was wanted. It may be to Alberta, it may be to British Columbia, or to Nova Scotia, or Quebec, or Manitoba.

Q. You think that is a desirable law to have?

A. I do.

Q. To have all the reserve?

A. I do not see any objections.

Q. In case it was needed?

A. I think it was a very wise act.

Mr. BONYNGE. Have banks admitted exceeding circulation limit?

A. Yes; unwittingly several banks have exceeded their authorized circulation.

By Mr. VREELAND:

Q. If it is not used it does not do any harm?

A. If we use the emergency circulation we pay the government interest upon the amount made use of at 5 per cent. We do not want to use it unless we have to. One bank helps another. If I found I was running up to my limit, I would make an arrangement with some bank that was not near its limit and get my requirements from them, paying them for it in gold or its equivalent.

Q. I do not see any objection to the law, except that as it is intended as a crop-moving measure, the rate of interest would seem to be a little high?

A. Yes, the rate is high; but the privileges enjoyed of being able to circulate up to the last dollar of the limit without penalty are worth it.

Q. So the emergency act to which you referred is for a totally different purpose?

A. Yes.

Q. It is not intended to move crops?

A. It is intended to assist the movement of the crops.

Q. It is purely an emergency measure?

A. Yes.

Q. About what is the average rate of dividends that the chartered banks pay?

A. The average rate is about 8¼ per cent, but the public is very much astray on that point. The payment of 8¼ or 8½ on the capital stock of a bank that has a reserve fund of 100 per cent is only an investment of about 4 per cent. If such a bank is paying 12 or 16 per cent, you have got to divide it up as a return upon

the capital plus the reserve fund, because the bulk of the capital of the banks has been subscribed for at a premium equal to the proportion that the reserve fund bears to the capital at the time of the issue of the new capital, or has been bought in the open market at the current premiums.

Q. What would you say the net earnings of banks are, as a whole?

A. The net earnings on capital?

Q. Yes; the net earnings based upon capital.

A. Not capital, but on capital and reserve?

Q. No.

A. I think about 15 per cent.

Mr. WEEKS. Has not this reserve generally been earned?

A. Not always. I have not made up the figures, but a large part of the reserve funds has been paid in by shareholders, a very large proportion.

By Mr. VREELAND:

Q. Has been paid in?

A. Has been paid in by shareholders. New stock issued from time to time. We started our bank on a paid-up capital of $500,000 and we have now $5,000,000. A million dollars, I think, was the original authorized capital, so that all the $4,000,000 has been new stock allotted to existing shareholders from time to time at a rate of premium equal to the proportion that the reserve fund then bore to the capital.

Q. Do they ever declare stock dividends?

A. No; never. It is the other way. Shareholders have to pay up the capital as well as the premium at which it is issued.

Q. And the reserve you mean?

A. So as not to impair the reserve—not to impair the proportion the reserve bears to the capital.

Mr. BONYNGE. They have to pay for the new stock issued what the stock is actually worth?

A. Less than that, as a rule, because the stock is generally worth more than what the reserve would represent. Our reserve is 100 per cent of our capital, but our stock is worth in the market 229 per cent to 230 per cent.

By Mr. WEEKS:

Q. You pay what dividend?

A. Eleven.

Q. About 5 per cent upon capital and reserve?

A. Yes; something over 5 per cent.

By Mr. VREELAND:

Q. It would be your opinion that a considerable portion of the seventy-odd millions of reserve of the chartered banks had been paid in instead of earned?

A. A considerable proportion has been paid in.

Q. Would you say a quarter of it had been paid in?

A. More than a quarter.

Q. A half?

A. I should think a half; yes.

Mr. KNIGHT. I thought about a third.

Mr. WILKIE. You can get the exact figures. I should not be surprised if it was 50 per cent.

Q. Any agitation in Canada for a guaranty of deposits under government supervision?

A. No; we couldn't stand that.

Q. You have not noticed perhaps that Texas is adopting that?

A. Yes; I saw that. Oklahoma has adopted it.

By Mr. WEEKS:

Q. If I remember correctly, you have about 20 banks less than you had twenty-five years ago in Canada.

A. I do not think 20.

Q. You had 48 banks at one time?

A. No; I do not think so. We may have had 36 or 37.

Q. What I wanted to ask was whether the capital was distributed enough; if there were not enough agencies for the business, whether there would not be an outcry some day that banking in Canada was a monopoly which would be injurious to the existing banks to some extent?

A. They can not charge that at present. I have just come back from a village in the northwest and I discovered three banks in a place where there was not business enough for one. At the present moment the branch idea is being carried on to excess.

By Mr. VREELAND:

Q. That would not affect the question, because you do not require additional capital where you put in additional branches?

A. No.

Q. A thousand different branches would not require any additional capital?

A. No; I think the banks are only too willing and ready to open branches wherever there is an opportunity

of doing business; but bear in mind that without our system of currency, without the inducement of being able to supply the currency required from the banks' own issues we could not keep the bulk of our branches open. If our currency laws were changed and we are not permitted to issue our own notes, nine-tenths of these branches would be closed. It would not pay us. It is only because we have unlimited till money always available. It is only because we have power to issue our own bills that we are opening branches. That is the crux of the whole matter. It is not only the starting point of our banks, but without our banking system we could never have developed the country to the condition it is in to-day. It could not be done.

Q. What per cent of profit do you figure you can make on your notes? The profit on notes in the States was modified very much by having to have government bonds and the loss of the premium on them, and also they have a tax on circulation, although it is not large, but still they make little profit.

A. It is very hard to say, because one element is interwoven with the other. Our bank has a circulation of $3,422,000 (August 31), but under our system we are holding $6,000,000 of government bills from which we get no interest whatever.

Q. Why are you obliged to hold that amount of Dominion notes?

A. Because we allow ourselves to hold a larger proportion of them than necessary. We might hold gold for about half of that amount.

Q. The law says whatever reserve you do hold you must have 40 per cent actual cash reserve in government notes.

A. Yes.

Q. How much do you hold?

A. Six millions.

Q. Is that only 40 per cent of your actual cash reserve?

A. No; it is about 80 per cent. What I mean to say is this, that the profits that we make upon circulation can not be calculated directly, because the advantage of till money, which costs us nothing to carry, is of considerable importance.

Q. It takes the place of cash?

A. Yes; it takes the place of cash.

Q. It is a fictitious capital?

A. It is a fictitious capital if you put it that way; yes.

Q. Here is your report, which shows a cash reserve of $8,481,000; you have to have 40 per cent of that in Dominion notes?

A. Yes.

Q. That would be a little over $3,000,000?

A. Yes.

Q. I understood you to say you had $6,000,000?

A. That depends upon the particular month to which you refer.

Q. You actually did have $7,300,000?

A. Yes; on the particular date to which you refer.

Q. But you did not have to have that amount?

A. No; we did not have to.

Q. Your actual circulation was $3,115,000; I do not see that it has anything to do with your holding of Dominion notes as a part of your reserves. Suppose you had to have gold?

A. Suppose we had a large part of that in New York bearing interest on deposit with banks, or had it in London bearing interest; supposing we had the gold on deposit in New York, that would be counted as gold on hand.

Q. As I understand, you fully agree that a large cash reserve should be kept?

A. Yes.

Q. I think you put it at 20 per cent or better?

A. Better.

Q. Or more?

A. More.

Q. Didn't I understand you thought you had 20 per cent?

A. I said more than 20 per cent.

Mr. BONYNGE. In your own vaults?

A. In our own vaults.

By Mr. VREELAND.

Q. Suppose the law was that you should be obliged to keep 20 per cent?

A. Yes.

Q. Of the deposits on hand.

A. Yes.

Q. In gold coin.

A. Yes; in gold coin.

Q. You have to have that amount on hand?

A. We might keep the gold on deposit in New York, and we could use the excess beyond the 20 per cent from time to time.

Q. You could not keep it in New York and count it as a cash reserve?

A. Yes; certainly; actual gold on hand with our agents. We do not do it, but it can be done.

Q. I should not think it would be a proper cash reserve if it is in New York.

A. You have the same thing in the United States—you have your reserve cities.

Q. But central reserve banks have to keep 25 per cent actual cash on hand?

A. It would be just as much a million of gold in New York as a million of gold here.

Q. There would be no object in keeping it there?

A. No; except that we could use the surplus amount on hand from time to time.

Q. Your reports say that the average amount of circulation is $75,000,000.

A. Yes.

Q. The moment that is in the bank it is out of circulation?

A. Yes.

Q. That is the amount which is in circulation?

A. That is the amount which is in circulation.

Q. Presumably loaned out?

A. Presumably loaned out or paid out to depositors in the ordinary course of business.

Q. On that $75,000,000 what would you say the profit is to all of the banks that own it?

A. I would not like to say.

Q. Suppose the cost of issuing and redemption amounts to 1 per cent, what other expense would you charge against it?

A. The tellers' salaries.

Q. Who?

A. The tellers, the men who look after the notes and separate them from notes of other banks.

Q. That would be small in the small banks?

A. Yes; but the proportion of expense to circulation would be the same.

Q. You would not have to employ extra help in order to separate the notes?

A. Yes.

Q. The ordinary teller would have ample time to keep them separated?

A. It would take up time that would otherwise be devoted to some other duty, necessitating a larger staff.

Q. We will assume there is some additional help needed on account of the notes; what other expense?

A. I do not know that there is anything else beyond the custody of the notes, and their sorting up every day, and the sending in of the other bank notes for redemption.

Q. That is included in the 1 per cent I have allowed for issuing and redemption. I think that would cover the issuing and redemption.

A. Yes; the issues have to be renewed, of course. I would not be prepared to say, Mr. Vreeland, what the

profit would be, because I do not think it can be worked out that way. You can not work out the direct profit on circulation.

Q. You say that the value would be 4 per cent upon the amount actually in circulation to the issuing banks?

A. Less the actual outlay connected with the management of the circulation and a proportion of the cost of the management of the branch banks.

Q. What do you figure the profit is to a bank on money that you pay 3 per cent for and loan at 6 per cent?

A. We give our branches 4 per cent on the auxiliary capital furnished head office; that would be 1 per cent beyond what they pay to their depositors.

Q. Would you figure 2 per cent?

A. Two per cent would be an excessive rate when allowance has to be made for the expense of head office management and the proportion of the amount which has to be held as a reserve. From 1 per cent to 1½ per cent net over the cost of the deposit to the branch is a fair allowance.

BANK OF MONTREAL.

Statement for the half year ended April 30, 1909.

Balance of profit and loss account, October 31, 1908		$217,628.56
Profits for the half year ended April 30, 1909, after deducting charges of management and making full provision for all bad and doubtful debts		860,682.49
		1,078,311.05
Quarterly dividend, 2½ per cent paid March 1, 1909	$360,000.00	
Quarterly dividend, 2½ per cent payable June 1, 1909	360,000.00	
		720,000.00
Balance of profit and loss carried forward		358,311.05

NOTE.—Market price of Bank of Montreal stock, April 30, 1909, 250 per cent.

GENERAL STATEMENT.

LIABILITIES.

Capital stock		$14,400,000.00
Rest	$12,000,000.00	
Balance of profits carried forward	358,311.05	
	12,358,311.05	
Unclaimed dividends	2,443.01	
Quarterly dividend, payable June 1, 1909	360,000.00	
		12,720,754.06
		27,120,754.06
Notes of the bank in circulation	10,455,537.00	
Deposits not bearing interest	51,620,373.35	
Deposits bearing interest	118,617,801.53	
Balances due to other banks in Canada	124,529.80	
		180,818,241.68
		207,938,995.74

ASSETS.

Gold and silver coin current		6,287,370.53	
Government demand notes		12,925,806.25	
Deposit with Dominion government required by act of parliament for security of general bank note circulation		600,000.00	
Due by agencies of this bank and other banks in Great Britain	$4,839,298.23		
Due by agencies of this bank and other banks in foreign countries	7,109,409.64		
Call and short loans in Great Britain and United States	80,658,497.00		
		92,607,204.87	
Dominion and provincial government securities		530,152.88	
Railway and other bonds, debentures and stocks		8,567,011.26	
Notes and checks of other banks		3,682,086.41	
			125,199,632.20
Bank premises at Montreal and branches			600,000.00
Current loans and discounts in Canada and elsewhere (rebate interest reserved) and other assets		81,914,981.49	
Debts secured by mortgage or otherwise		118,421.11	
Overdue debts not specially secured (loss provided for)		105,960.94	
			82,139,363.54
			207,938,995.74

E. S. CLOUSTON,
General Manager.

BANK OF MONTREAL,
Montreal, April 30, 1909.

Interview with Sir Edward Clouston, General Manager of the Bank of Montreal.

By Mr. VREELAND:

Q. This statement, Sir Edward, which you have produced, is an older statement than your annual, the one that you publish?

A. Yes; we publish ours every six months. We are the only bank that does.

Q. The law requires you to publish it once a year?

A. That is all.

Q. You publish it voluntarily again?

A. Yes.

Q. At the end of six months?

A. Yes.

Q. Your capital is now $14,400,000, and surplus and undivided profits $12,358,000, making a total of $27,120,000. The Bank of Montreal, if I remember right, for a good many years was the largest bank on this continent?

A. Yes; it must have been. The only bank I know of larger now is the National City. Is there any other?

Q. I think perhaps the National Bank of Commerce of New York is just about your figures.

A. Has it as much as that?

Q. Yes; you can issue your notes to the amount of your capital; I see on this statement that you have about $4,000,000 of notes unissued?

A. Yes; that is the period at which our issue is lowest.

Q. Your deposits not bearing interest seem to bear a considerably larger proportion to the whole deposits than the other banks that we have noticed so far?

A. Yes; we have so many government and railway accounts.

Q. That is accounted for by government accounts and other accounts of large corporations?

A. Yes.

Q. And other large accounts?

A. Yes.

Mr. WEEKS. Do you have all the government business?

A. We have the most of it, but a number of the other banks have small deposits. The principal account is kept with us. In fact, we are the government bankers.

Mr. BONYNGE. You act as the official agent of the government?

A. Yes; here and in London. We issue all their loans.

Mr. WEEKS. That is because you are the largest bank; it has nothing to do with your charter conditions?

A. No; simply because we have the government business.

By Mr. VREELAND:

Q. When was the bank of Montreal originally chartered?

A. In 1817. I do not think we got our charter properly until 1818.

Q. That would also account for your having the government business; you were really the first large bank?

A. No; the government business was held by the bank of Upper Canada for a number of years.

Q. That was before confederation of the Provinces?

A. Yes.

Q. Government demand notes are simply government loans without interest?

A. No; they are Dominion notes.

Q. You carry a much larger proportion of Dominion notes than the law requires you to?

A. Yes.

Q. Forty per cent the law says it shall be?

A. Yes.

Mr. BONYNGE. You are carrying one-fifth of all the Dominion notes that are issued, are you not?

A. The total amount of Dominion notes is about $70,000,000—$69,000,000. I am speaking from memory.

Mr. VREELAND. You carry a cash reserve; these two items gold and silver and government demand notes, that is the cash reserve carried in your own banks or branches?

A. Yes; in our own safes. It does not really represent our position, because we carry gold in other places. We carry gold in Newfoundland and Chicago and Mexico. That is, outside of the Dominion. This only refers to the Dominion. In fact, at times we could not insert our total gold holdings or we would get beyond the 40 per cent.

Mr. BONYNGE. When you speak of carrying gold outside of the Dominion you mean with your own branches outside of the Dominion?

A. Yes; our own branches.

By Mr. VREELAND:

Q. At the date of this statement you give 10 per cent of actual cash in your safes besides the amounts due you from your own outside branches and from other banks?

A. Yes.

Q. This deposit with the Dominion government would be under the 5 per cent deposit for note issue?

A. Yes.

Q. And you have due you in agencies of this bank and other banks in Great Britain—those are cash balances due you?

A. Yes.

Q. Either from your own agencies or other banks in Great Britain?

A. Yes.

Q. Due by your agencies and other banks in other foreign countries?

A. That would be in the United States and Mexico.

Mr. BONYNGE. How many branches have you, sir?

A. They change. About 150 I should think. One was opened the other day, and one will be opened in a few days.

By Mr. VREELAND:

Q. The cash in your own safes and cash due you from other banks, including your own branches abroad, would amount to something like $30,000,000?

A. Yes, about that.

Q. Your deposits, liabilities, and notes would amount to about $186,000,000?

A. Yes.

Q. Then you have practically a cash reserve of something like 16 per cent?

A. About that.

Q. At the date of this statement?

A. Yes.

Q. Then your quick assets in call and short loans, what time would you call a short loan? Say ten or fifteen days?

A. A short loan represents only the small amount we loan in London, what we call "stock-exchange" loans.

These loans are not callable every day, as in New York. From settlement to settlement, taking place every fortnight. The rest of it is all call money.

Mr. BONYNGE. You loan in New York principally?

A. Principally in New York.

By Mr. WEEKS:

Q. I suppose you carry such a large sum in that way to protect your gold in case of emergency and to keep the money employed?

A. To protect any heavy demand.

Q. You have a much larger proportion of your assets loaned in that way than any other bank I have noticed?

A. Very much larger.

By Mr. VREELAND:

Q. The purpose of your carrying so large an amount of foreign loans would be for the purpose of putting you in a position to realize quickly upon assets for any demands which might be made upon you and not, I judge, for the same purpose, for instance, that the banks of Belgium and France and Germany keep a considerable amount of foreign bills, to protect them from withdrawals of gold?

A. Yes.

Q. Or shut it off?

A. Yes.

Q. Gold, as far as I have noticed, does not play any great part in your banking system?

A. No; it does not enter into it to any great extent.

By Mr. WEEKS:

Q. Do you think that the gold carried in your reserves is sufficient to form a basis for the future development

of Canada? It seems low to me. I would like to have your judgment on that.

A. We do not carry much gold. If we were dependent upon this gold entirely it would not be anything like sufficient to form a basis, but we practically look upon all these gold loans out of the country as gold that we can put our hands on within twenty-four hours. There is nothing to prevent us calling all the loans we have in United States and England to-day, and we could have the whole of them called in in New York within twenty-four hours, and the gold thus realized in Canada as soon as the express companies could bring it here.

Q. You ship very little gold to the United States; you are in a position of loaning your money in New York and drawing gold against those loans if you wish to?

A. Yes; we ship gold occasionally, but not very largely.

Q. You wouldn't consider your reserves of gold sufficient unless you had these demand loans and short loans in London and New York for the general banking purposes of the country?

A. We should increase our gold very much if we did not have them. We have to carry a rather larger reserve than the other banks because in case of trouble we are apt to be the ultimate source of supply.

By Mr. VREELAND:

Q. You really act as the central bank here, do you not?

A. We do not wish to claim the position, but we are forced into it very often.

Q. I was inquiring if, in your opinion, inasmuch as the government does not need them especially, it would not

make the banking system stronger if you could substitute gold in place of the 40 per cent of Dominion notes?

A. Yes; it would, except that the Dominion notes are always supposed to be backed up by gold, or means of acquiring gold. They are practically receipts for gold.

Q. If they actually called for gold on demand, that would mean that your Dominion government must keep a large reserve of gold useless for the purpose of protecting it?

A. They have to keep that gold against it. They do not actually keep the gold, because they have a certain amount of debentures which they hold. They only keep 15 per cent in gold up to $29,000,000.

Q. Your Dominion act provides: "The minister of finance shall always hold as security for the redemption of Dominion notes up to and including $30,000,000, issued and outstanding at any one time, an amount equal to not less than 25 per cent of the amount of such notes in gold, or in gold and securities of Canada?"

A. Yes.

Mr. BONYNGE. Above the $30,000,000 you have dollar for dollar?

A. Dollar for dollar.

By Mr. VREELAND.

Q. The amount so held in gold shall not be less than 15 per cent of the amount of such notes so issued and outstanding?

A. Yes.

Q. I assume the other 10 per cent would be Dominion securities?

A. Yes; securities of Canada, the principal and interest of which are guaranteed by the Imperial Government.

Q. You say the amount of Dominion notes now issued is about $69,000,000?

A. $69,000,000, I think.

Q. What is the present law as to the redemption of them? They are supposed to be redeemable on demand?

A. On demand.

Q. Is the law unchanged that I have just read saying 25 per cent, 10 per cent of which may be in securities?

A. Yes; that is up to $30,000,000, I think you said?

Q. Yes.

A. Beyond that they have to hold dollar for dollar in gold.

Q. And it is now carried out?

A. Yes.

Q. Above the $30,000,000 they would have an equal amount of gold on hand?

A. $35,000,000 in addition to the 10 per cent.

Q. Makes it something like our gold certificates in the States?

A. Yes.

Mr. BONYNGE. That gold is held by the Dominion treasurer?

A. Dominion treasurer. The receiver-general we call him.

By Mr. VREELAND:

Q. Where, besides the Dominion treasury, are they redeemable?

A. Only at the Dominion treasury.

Q. No other part of Canada?

A. There are several assistant receivers-general in Canada—Montreal, Toronto, Winnipeg, etc.

Q. Redeemable at any of those places where there is a receiver-general?

A. Yes.

Q. The money received through your postal banks, I understand, is treated as current funds, turned into the general treasury?

A. Of the Dominion government.

Q. No reserve is kept against them?

A. Yes; they have to keep a reserve, 10 per cent, I think; they established it recently.

Mr. BONYNGE. In gold?

A. Yes; or in gold and Canada securities guaranteed by the Imperial Government.

Mr. VREELAND. One gentleman said yesterday that they had to keep a small reserve against the postal receipts, but reduced it on Dominion notes?

A. No; I do not think they reduced it on Dominion notes. It is a small reserve.

By Mr. WEEKS:

Q. I would like to ask you, Sir Edward, if you think that the organization of the postal savings bank system is an advantage to the people of Canada, or would be of advantage to the people of the United States?

A. It enables the government to say that they have a safe place for the savings of the people. If they are doubtful of any bank they can go to the government and deposit it there and it is supposed to be safe, but they do not

interfere with our deposits much. We do not believe they are competitors, because anything connected with the government necessarily carries a certain amount of red tape. I do not think the deposits of the government have increased materially for quite a number of years.

Q. Is not the government paying too high a rate of interest on these receipts?

A. We think so. They are paying the same rate of interest the banks are paying, 3 per cent; but we say if they insure security, as they say they do, they should reduce the rate.

Q. If they had to reduce the rate of interest the probabilities are the receipts would not be as great even as they now are?

A. No; they possibly feel they would have to meet withdrawals.

Q. Do you think they might reach a condition, sir, practically where enough money will be drawn out of the banks and deposited in the postal savings banks to be embarrassing in a critical situation?

A. No; practically not. The practical working would be, if they withdrew it from the banks and deposited it with the government, the government would redeposit it with us, and that would assist the banks from which it would have been withdrawn. It would really make no difference to the country.

Q. Having a small number of banks you could do that?

A. Yes.

Q. Very easily?

A. Yes; the government redeposits with us immediately. All the departments deposit it, and it passes into

the bank where it can be immediately used for the good of the community. During the period in 1907 and 1908, when money loaned for 100 per cent in the United States, the rate for money from here to the Pacific did not advance more than 1 per cent, and that was more in the way of bringing pressure on the people to reduce their borrowings.

By Mr. BONYNGE:

Q. As I understand, the postal receipts are deposited by the government where they are needed for government purposes?

A. We know nothing about it. It passes into the general balances of the government. They do not segregate it, so far as their accounts with us are concerned.

Q. Nor do they keep separate the money that is actually received from the postal receipts?

A. No.

Q. The Dominion treasurer does not retain that money?

A. No; if there were any danger at all it would be owing to withdrawals from the government postal savings bank. Then they would have to get the money to meet them, and it would mean they would draw on us very heavily, and we should probably have to issue loans for them. It is not a very serious contingency.

Mr. VREELAND. The burden then really rests upon the banks?

A. It comes back to them, chiefly to the Bank of Montreal.

Mr. BONYNGE. The bill proposed for us provides for loaning that money from the treasury to the banks

n the locality from which it is collected and banks paying a small rate of interest for the money redeposited with them by the Government.

A. That would improve it to a certain extent.

Mr. VREELAND. I see that you have notes and checks of other banks amounting to $3,682,000. I think that you treat that as part of a reserve. You would be entitled to call that a cash reserve, because you could take it to the clearing house and get the money for it?

A. Yes.

Mr. BONYNGE. As against that, aren't your checks also outstanding?

A. Yes; we do not treat that as an important part of our reserve, because there would be about the same amount coming in against us from other banks.

By Mr. VREELAND:

Q. I notice that you carry bonds and pledges for stock, $8,500,000. What sort of stock do you carry?

A. We haven't very much in stock just now. We have some Canadian Pacific stocks, a small amount.

Q. I suppose the bulk of that is in bonds?

A. Bonds, yes; largely in government bonds.

Q. Railway bonds?

A. And railway bonds. We have also Great Northern stock, and Northern Pacific to a limited extent.

Q. Do you carry bonds, government or otherwise, first-class bonds, with any idea of using them as a secondary reserve?

A. No.

Q. To sell?

A. No; we do not. Any bonds that come to us are generally in connection with special operations. For a reserve they are not a very good banking proposition, but then, as an immediately available reserve the best securities are not the best reserve. We had an experience once in old days in the United States when there was a crisis there; we held very high-class bonds and these bonds returned a low rate of interest, but we found that we were not able to sell them, because the class of people who invested in such bonds had practically withdrawn from the market. That is why I say for purposes of a reserve gilt-edge bonds are not the best reserve.

Q. The great trouble with some of the best securities in times of widespread crises is that you can not sell them except at a sacrifice?

A. Exactly. Some of the heaviest losses have been made by English banks holding English consols.

Q. The English Government through her postal department suffered severely?

A. Yes.

Q. I think over $500,000?

A. Some of the banks also suffered very heavily.

Q. To return to your Bank of Montreal statement, you show loans and discounts about $82,000,000?

A. Yes.

Q. What you call commercial paper in its widest sense, including all sorts of time paper upon which you receive interest or discount, does that follow or run along about the same lines as ours does in the States?

A. I think so.

Q. Rather than the English and French lines of paper; that is, trade bills, drafts upon time?

A. Commercial paper, that is, paper given by a merchant to a customer who banks with us. Commercial paper with us is negotiable paper given by a merchant in settlement of his purchases from one of our customers. That, I take it, is what is understood by commercial paper all the world over. Outside of that we have no other security.

Q. What is the practice with your Montreal merchants, for example, merchants here of first-class credit, how do they pay their bills? Do they make their banking arrangements with their home banks and pay their bills by check, availing themselves of cash discounts, and would such commercial firms but rarely give notes or accept drafts?

A. They sometimes accept drafts or give notes for their foreign purchases, but they usually settle their domestic accounts by check, taking advantage of cash discounts.

Q. They would go to their local banks and make satisfactory arrangement to procure the money to pay their bills?

A. Yes.

By Mr. BONYNGE:

Q. Do you own your buildings for your branches throughout the Dominion?

A. Very largely. We have in Montreal this building and seven other buildings.

Q. You own seven other buildings in this city?

A. Yes.

Q. How many branches have you in Montreal?

A. Seven. We have subagencies in other centers, such as Toronto and Winnipeg.

By Mr. WEEKS:

Q. Are all these buildings carried at $600,000?

A. Yes; and we are just about to erect a building in Winnipeg; I do not know what it will cost, but it is to be a fine building. We have also recently bought a building in Wall street, but your laws will not allow us to hold it in the name of the Bank of Montreal.

Q. Because you are a foreign corporation?

A. Yes.

Mr. VREELAND. That is the law in the State of New York.

Mr. WEEKS. That is the law of the United States.

By Mr. BONYNGE:

Q. It is a law of the State of New York.

A. Probably each State makes its own laws in that respect.

Q. You maintain a branch in New York?

A. Yes.

Q. How many branches have you in the United States?

A. Three, Spokane, Chicago, and New York.

Mr. WEEKS. Do you think it would be wise to permit a bank like the Bank of Montreal, or our national banks, to do a trust-company business as part of their charter rights?

A. That is a question which has only arisen quite lately in my mind. The manager of an English bank was here the other day and he told me that they have got permission to act as trustee, or executor, trustee for estates,

trustee for bonds, and in fact to transact the business we do through a trust company because we can not do it under our bank act. I should not think there would be any very great objection to it.

By Mr. VREELAND:

Q. If it can be done indirectly as you are doing it?

A. The bank has nothing to do with it. It is done by another corporation very closely allied to the Bank of Montreal, with different shareholders and a separate board of directors.

Q. I can not see any reason why if they can conduct it successfully indirectly they could not do it just as well directly under their own executive officers; the bank s large enough to employ men skilled in that line to attend to it?

A. Yes.

By Mr. BONYNGE:

Q. How much of your deposits bearing interest represents savings accounts and how much time deposits, approximately, can you tell us?

A. I could not without looking into it. In the directors' statement we do not separate them in that way. They are separated into deposits bearing interest and deposits not bearing interest.

Q. For the savings accounts you issue a savings-bank book?

A. Yes.

Q. To the depositor?

A. Yes.

Q. Do you follow the same rule as the other banks, in not segregating the savings deposits from the other deposits but treating them all alike?

A. Yes.

Q. You have not any certain assets that you set aside for the savings accounts?

A. No; none whatever. I think our bank statement is already too voluminous, because it gives so many different items of information. If we gave a short statement as they do in England, so many deposits, so many discounts and our reserves, it would serve all practical purposes. They were carried away, at our last revision of the bank act, in drawing up the form of statement, and I do not know whether we can get it reduced now. It gives a great deal of information that is practically of no service, and it is very difficult sometimes for a general manager, with the best intentions in the world, to make a correct statement in each column, because he is uncertain what column to use. What one wants to know is the liability of the bank and the available assets.

By Mr. WEEKS:

Q. Do you think it wise for your banks to invest the savings deposits as other deposits are invested?

A. Suppose a bank fails, we can not keep the savings deposits separate from the others.

Q. You do not, but you might?

A. We could not. Each is a liability of the bank.

Q. Under your laws?

A. Yes; unless we alter our laws. There is a bank that says all its savings-bank assets or deposits are invested

in first-class securities, or Dominion loans, but that is nonsense, because if the bank stopped payment it could not apply those to the savings bank. They would have to go to the general assets of the bank. It is a catch with the public.

By Mr. VREELAND:

Q. Under your law, there are no government examinations of banks?

A. No.

Q. What examinations do you have of your banks; for instance, the Bank of Montreal, what is your system of examinations?

A. We have a regular staff of inspectors.

Q. Who are on the road constantly?

A. Yes; the rule is generally two weeks out and two weeks in, and every one of the branches has to be inspected once every year.

Q. What system do you have in your head office here; is it treated the same as any other branch? And what about your city branches here?

A. The branches in Montreal are inspected by the inspectors, but the loans are not specially reported on because they are directly under my own eye. The head office is inspected by the directors.

Q. In what form do they inspect it?

A. The board of directors takes our balance sheet at the end of the year and compares it with our head-office books.

Q. What means have you for the prevention of defalcation in your clerical force?

A. In the head office there is no chance of defalcation. They deal entirely with figures. They do not handle any securities or cash.

By Mr. WEEKS:

Q. Do the directors ever go through the securities or notes physically and examine them and count them?

A. No.

Q. Or anything of that sort?

A. No.

Q. Is a report made to the directors?

A. The report of the inspectors?

Q. Yes.

A. They make a report to me as general manager, and I report it to the directors. The inspector reports on the state of the various accounts, and he generally reports on the country in the vicinity of the branch and what the business and agricultural prospects are.

Q. Do you think it would be of advantage from your standpoint if you had a public inspection conducted by the government?

A. I do not see how the government could conduct such an inspection. It would be almost impossible to get a staff to do what we do. To get a proper inspection you would have to have all the branches inspected simultaneously, so that they could not make any changes among themselves.

Q. Do you think such an inspection could be confined to the main offices with any advantage?

A. I do not think so.

By Mr. VREELAND:

Q. Have you increased the capital stock of your bank, say, since 1900?

A. Yes.

Q. The surplus has been increased?

A. The surplus is being increased steadily. We have increased the capital from time to time as necessity required. In the year 1819 the capital was increased to $650,000, and in the following year to $750,000. In 1829 the capital was $850,000; in 1841, $2,000,000; in 1845, $3,000,000; in 1855, $4,000,000; in 1860, $6,000,000; in 1873, $12,000,000; in 1903, $14,000,000; in 1905, $14,400,000.

Q. Have you established a considerable number of new branches during the last ten years?

A. Yes.

Q. In the West?

A. We are adding all the time to our branches in all parts of the Dominion.

Q. Your cash deposits are mainly kept, I suppose, at the head office and sent wherever needed?

A. The cash?

Q. The cash beyond the amount of till money that they need.

A. We distribute it as much as possible. We have certain centers, so if there is any trouble at any branch we can supply that branch within twenty-four hours. Some of our branches are seven or eight days' travel away from the head office.

By Mr. VREELAND:

Q. These reports that come in are all boiled down, collected together, and then they go to the general manager?

A. This report will probably be examined by two men before it comes to me.

Q. Will this individual report come to you as it is?

A. Yes; it will be examined by them and then I go over it and approve. If there are any accounts weak we write about them, or inquire into them, and the report then is submitted to the directors. In that way we have our finger on the whole country. That is what makes banking somewhat more interesting in Canada than in the States.

Q. What authority do you give to the managers of your various branches about loans? I suppose you give them a limited authority without consulting your head office?

A. Yes; their conduct of business is regulated on certain lines, and a certain latitude is allowed to managers. If they do not produce good results we can change them and put someone else in.

Mr. WEEKS. Do you have any cases of dishonesty?

A. Very few. The claims on the guaranty company are very, very few, extending over quite a large number of years.

Mr. BONYNGE. Your officials are all bonded?

A. All bonded. We bond every official to the extent of $2,000. We bond them ourselves in addition, according to the position each is in. One man handling a large

amount of cash would be bonded for $10,000 or $15,000, and the premium on that would be set aside to a fund, and that fund is growing steadily. It is quite a large fund.

By Mr. WEEKS:

Q. How many employes has the bank?

A. About 1,300.

Q. Are they all bonded?

A. All bonded; every one. Our staff is growing steadily, because every branch opened means three more clerks, even for a small branch.

By Mr. VREELAND:

Q. Rates of discount in the various parts of Canada in your branches, I suppose, differ somewhat according to the sort of business presented?

A. Yes.

Q. More risk in one part than another?

A. There is not only more risk in certain parts of the country, but the cost of doing business there is very much in excess of what it is in other places. We have to allow all our men when they leave for the West extra allowances, and that helps to make business there more expensive.

A. Are the rates of discount made larger in these sections, or are they uniform?

A. Made larger.

Q. In the West.

A. Yes; they are a trifle larger in parts of the West than they are in the East.

By Mr. BONYNGE:

Q. Who fixes the rate of discount, does the head office or the branch office?

A. The head office.

Q. Is any change made in the rate without consulting the head office?

A. No; they can put it up as much as they wish but they can not put it down.

Q. They can raise it?

A. They can raise it.

Mr. WEEKS. Suppose money conditions were strained and you did not wish to make any new commitments outside of those which the bank has to make to its own customers in Montreal, would you instruct your managers all over the country to refrain from any new commitments because the local conditions demanded it?

A. Yes; we would in large places. We do not disturb small places. In a big center like Winnipeg, or Toronto, or Vancouver, or Halifax, we would instruct them to keep their business well in hand and not make any further commitments without consulting us, but it is no use interfering in a small place. If you called in the loans in the smaller towns you couldn't get them.

By Mr. VREELAND:

Q. They would not understand it?

A. No.

Q. Rates of interest are pretty uniform throughout the country?

A. Yes; fairly uniform.

Q. About 3 per cent seems to be the average amount paid?

A. For deposits?

Q. Yes.

A. Yes.

Q. Rates of interest on deposits?

A. Yes; 3 per cent is the maximum.

Q. Banks adhere to that pretty closely?

A. Pretty closely.

Q. Do not your trust companies pay more than the banks?

A. The Royal Trust Company does not take deposits in the banking sense. It takes deposits of a certain class but they are not subject to check.

Q. Along what lines do your banks compete in an endeavor to get business, from the reputation of the managers and the reputation of the bank? Do they offer more favorable terms upon exchange, or upon loans, or pursue those plans of obtaining new business?

A. Sometimes a concession is made for the purpose of obtaining an account, probably a lower rate of discount is granted.

Q. You have then sharp competition?

A. Yes.

Mr. WEEKS. One of our methods is in paying so much interest on a certain part of a deposit, a free balance, or something of that sort; with your uniform rate of interest that is impossible.

A. We have the same arrangement. Very often a company or individual wishes to have his checks made

payable at par in different provinces, wherever we have an agency, and in order to get some profit out of that concession we make him keep so much at his credit free of interest.

Mr. BONYNGE. In the case of an ordinary depositor with an account with the bank at Montreal and desiring to make a payment at Vancouver, would you charge him for the draft?

A. Yes; charge him a commission for it. That is a proper and legitimate part of the business of the bank.

By Mr. VREELAND:

Q. What amount of deposits would you consider as justifying the opening of a branch, Sir Edward?

A. That depends. In a country like the West, which is growing all the time, we have to take a chance of not doing any business for a year.

Q. Prospects would also enter into it largely?

A. Yes; we have just issued instructions to open at a place where there will not be any deposits at all, but the place is a good point; it is on the bank of a river and a divisional point on a railway.

Q. What amount of deposits in a branch would you consider, from the standpoint of the profit, justified establishing it?

A. That is a very difficult question to answer, because a minor branch or subagency might be useful in other ways than securing deposits. Where we open a subagency out in a manufacturing district, that is done very often to protect our business at the head office, because otherwise the different manufacturing concerns might be making banking arrangements elsewhere, and we give them

the convenience of paying their checks close at hand. In a country place, for a country branch, anything from $350,000 upward.

Q. There is no implied understanding as to interest, discounts, rates, and loans among the banks?

A. None at all; no.

Q. How about the interest on deposits?

A. It is an agreement among ourselves that we shall not pay more than 3 per cent.

Q. It is not considered good banking to pay more than that?

A. No; 3 per cent half-yearly.

Q. The statements indicate that banks generally, taking them all together, pay interest on about two-thirds of their deposits; your bank runs less?

A. Yes; I dare say they do.

Q. About two-thirds seems to be the average according to the condensed report?

A. Yes.

Q. The checking system has come to be very generally used in Canada, the system of checking upon accounts?

A. Yes.

Q. How about your large manufacturing corporations here and the railroads; how are their pay rolls paid, by cash or by check?

A. Check, chiefly. That is, at any rate, the practice of railroads.

Q. All the large manufacturing concerns in the city here, do they pay usually by check or cash?

A. They generally get the money. We consider that one of the profits in connection with the account is the circulation that it gives us.

Mr. WEEKS. Does the government pay checks or cash?

A. They pay checks.

By Mr. VREELAND:

Q. There is nothing in the Dominion law, as I understand, relating to reserves?

A. Nothing.

Q. That is entirely——

A. Subject to the judgment of each general manager.

Q. Under the laws, also, does the Banking Association endeavor, as a matter of good banking, to keep a minimum amount of cash reserves among the banks?

A. Yes; there is an arrangement among ourselves that a bank will keep a minimum of 8 per cent in actual cash and 7 per cent in readily available securities, making 15 per cent in all, but there is no law about it.

By Mr. WEEKS:

Q. Do you consider that sufficient, taking everything into consideration?

A. Yes.

Q. There is always a great difference of opinion among bankers about the necessity for keeping a reserve and the method of handling a reserve?

A. Yes; there is always a difference of opinion.

By Mr. VREELAND:

Q. To what extent have there been runs on banks in years gone by in Canada? Were there runs upon the Ontario Bank?

A. Yes; and the Sovereign Bank.

Q. At their head offices and branches also?

A. Yes.

By Mr. BONYNGE:

Q. At that time did it cause runs on the other banks?

A. No.

Q. No runs on any of the other banks?

A. No; the run on the Ontario Bank hardly commenced when we stopped it by taking the bank over and putting up a sign "Bank of Montreal" over the "Ontario Bank," and that stopped the run.

Mr. VREELAND. Any amount they wanted you paid?

A. Yes.

Mr. WEEKS. Was that a quiet run?

A. Yes.

By Mr. VREELAND:

Q. I notice in the case of the Sovereign and Ontario they were taken over and liquidated by the chartered banks or a combination of them?

A. In the case of the Ontario we took the bank over ourselves and liquidated it ourselves. In the case of the Sovereign Bank there was a partition of all the offices in the districts, and each bank looked after its own district.

Q. Would you say that has become the policy of the chartered banks in case of a weak bank, or one that is about to suspend?

A. No.

Q. It is left with each individual case to deal with it as you see fit.

A. Yes; in the case of the Ontario Bank and Sovereign Bank it was a very ticklish time, and if that run had been allowed to continue it might have spread, and it was done partially in self-defense.

Q. That was when we were having our panic across the border in 1907?

A. Yes.

Q. But it is the practice of your chartered banks, is it not, Sir Edward, to support each other where you consider them solvent?

A. There is no regulation to that effect, but if a bank should come to us in trouble and show us reasons for doing it, we should help it over.

By Mr. BONYNGE:

Q. Much the same as our clearing houses?

A. Yes; probably the same as the clearing house in New York. In the panic of 1907–8, during the crisis in the United States, two or three banks came to us for help, but it was not generally known. They were perfectly solvent and perfectly good and only needed temporary assistance at the time.

Q. You know our clearing houses do that quite frequently?

A. Yes; we are members of the clearing house in Chicago.

By Mr. VREELAND:

Q. You say that your cash reserves in proportion to your deposits are increasing, say, in the last ten years?

A. Yes.

Q. That is the general policy of the banks?

A. Yes. Just at present I imagine they are about as strong as they ever have been.

By Mr. BONYNGE:

Q. During the panic of 1907 in the United States, did you call your loans in in the United States, or did you loan money then?

A. We kept our balance pretty even all the time.

Q. Your money was largely on call in the United States at that time?

A. Yes.

Q. And you got higher rates of interest for the money that was out?

A. Yes.

By Mr. VREELAND:

Q. The note issues of banks, I think, we have been well over. In the end all of the banks are behind them?

A. Practically.

Q. The notes are issued and the expenses paid by the individual banks?

A. Yes.

Q. Of note issues?

A. Yes.

Mr. BONYNGE. There is double liability of stockholders also?

A. Yes.

By Mr. VREELAND:

Q. And also stockholders would be liable——

A. Not liable beyond the double liability.

Q. They would be liable to the amount of the subscribed capital that had not been paid in?

A. Yes; anything unpaid.

By Mr. BONYNGE:

Q. If you had an authorized capital of $20,000,000 and had issued stock for $14,000,000 there would be no liability on the excess?

A. No; suppose the shareholders had not paid in full their calls on account of stock they would be liable for the balance, but not for the authorized issue.

Q. Not for the difference between the authorized issue and what was actually outstanding?

A. No.

Mr. WEEKS. Do you think the possibility of fraud in issuing circulation is as carefully guarded as it can be?

A. Very nearly. We have never found in any bank that came to grief or got into trouble the slightest error in circulation. The only improvement that could be made would be if the banks made their own notes. At present it is done by the American Bank Note Company, and by the British-American Bank Note Company, and some are made in England, so we can not follow them there.

Mr. BONYNGE. You think it would be better if the notes were made by the Dominion government?

A. Or made by the banks. We have several times talked about having a note bureau of our own in the Bankers' Association which would manufacture the notes and distribute them to the banks.

By Mr. VREELAND:

Q. Superintended by the officers of the association?

A. Yes; so that the note would be under our control from the birth until the death.

Q. To what extent can you get reports from these different bank-note companies as to their shipments to banks?

A. They are obliged when they deliver notes to a bank to notify the association. If a bank-note company failed to do that the association would not let the banks get their notes there.

By Mr. WEEKS:

Q. Do you keep a record of your individual notes?

A. We do. It is not generally done in banks.

Q. I should imagine that about the only chance of an overissue of notes would be by some bank which was in pretty hard straits?

A. Yes; there is the chance in a case of a run that they would keep paying out their notes, and an overissue might occur in that way.

Mr. BONYNGE. Might it also occur at the branches before they had notice?

A. It might, possibly.

By Mr. VREELAND:

Q. It would occur when the bank is pretty well up to its limit of note issue?

A. Yes; but there is not the same danger now, because we have a new regulation.

Q. The law of 1908?

A. Yes.

Q. Has that been used by any of the banks?

A. Yes.

Q. It was used last year?

A. We had notice within two days of two banks that wanted to use it.

By Mr. BONYNGE:

Q. This year?

A. This year.

Q. Was this regulation passed at the suggestion of the bankers?

A. It was under discussion at one time.

Q. Did the Canadian Bankers' Association take any action before the passage of the bill, either in its favor or against it?

A. No; but they had no objection to it. On the other hand, I do not think they made any application for it.

Q. Did it originate with the Canadian Bankers' Association?

A. It was the result of a discussion between some of the bankers and the minister.

Mr. WEEKS. Do you see any objection to it now if it is used strictly for emergency purposes?

A. I do not see any great objection to it. It is only used for four months during the grain season, and the grain movements are over by the 31st of January. By that time most of the grain is sold.

By Mr. VREELAND:

Q. I should think that it might be of advantage to the banks of smaller capital?

A. Yes.

Q. To those having a very small issue and which run pretty close to the limit?

A. Yes.

Q. And which have quite a good many branches?

A. Yes.

Q. And not as the Bank of Montreal, with a large or much larger capital and consequently a larger note issue?

A. Yes; the pressure for circulation has been largely relieved by the establishment of smaller branches throughout the country, causing notes to come back from circulation more promptly in consequence.

Q. What is the pocket money of the people generally, Dominion and bank notes?

A. Yes.

Q. And silver?

A. And silver.

Q. Very little gold is circulated?

A. No gold is ever carried.

By Mr. BONYNGE:

Q. I suppose your method of circulation is a source of profit to the banks?

A. To some banks it is. It is not of much profit to a bank like this, because we have to carry such large reserves, and we expend a great deal of money in keeping our circulation as clean as possible.

Q. What do you estimate the expense of keeping up the circulation with the very frequent redemption which you have; would 1 per cent cover it?

A. It is not far from it.

Q. Your redemption is very frequent?

A. Yes; the life of one of our notes averages three or four years.

Q. Notes that are paid off and which are in good condition are put out again?

A. Yes.

Q. As soon as they are in bad condition they are destroyed?

A. Yes; and we try to keep our circulation clean.

Q. Would all of your circulation be payable at any one of your branches if presented?

A. Yes; we are not obliged to pay it at any branch, but we do.

Q. I mean legally?

A. No; but a bank must receive in payment its own notes at par at any of its offices whether or not they are payable there.

Q. Under the law are you obliged to pay or redeem notes at the branches?

A. Each bank has to establish agencies for the redemption and payment of its notes at certain points designated by the bank act.

By Mr. BONYNGE:

Q. All of the notes of a bank that might be presented at any one of its redemption points would have to be redeemed there?

A. Yes.

Q. Even if all the outstanding notes of the bank were presented at that redemption point they would have to be redeemed?

A. Yes.

By Mr. VREELAND:

Q. What are the functions of your clearing house; are they anything beyond what would be indicated by the name, the balancing of accounts as to checks and notes?

A. Practically that is all.

Q. Is there any agitation in Canada for any changes in your banking laws by any class of your people, or by bankers?

A. Not by any particular class. There are always a certain number of persons who think they know more about your business than you do yourself, and who have all sorts of suggestions to make. I have not heard of any such agitation.

Q. Banks have no taxes so far as the general government is concerned?

A. No.

Q. You have your provincial, city, municipal, and school taxes?

A. Yes.

Q. All the provincial and municipal taxes, but nothing from the general government?

A. No; not from the Dominion government.

Q. In what form does the provincial government tax you?

A. Chiefly on capital. It is a very unfair tax, because we have always urged that they should tax us on the amount of capital used in their province, but they say it is a much simpler matter to tax as they do. We have, therefore, to pay much more proportionately than any other bank.

Q. What rate does the Province of Quebec charge upon bank capital?

A. I do not remember. It is a graded tax.

Q. You mean graded by starting in with $1,000,000 capital?

A. Yes.

Q. And so on?

A. Yes.

By Mr. WEEKS:

Q. Does the general manager determine where circulation shall be distributed, how much shall be at each branch at any specified time?

A. No; that is regulated by the branches themselves.

Q. In accordance with their needs?

A. Yes; they apply for circulation as they require it.

Q. How frequently do your branches report to the main office the circulation which they issue?

A. We receive regular reports of the amount they have on hand; daily reports from the leading branches and twice a week from the smaller branches. That is our own personal arrangement.

Q. I was led to ask that question, thinking, perhaps, unless reports were made very frequently a bank that was near its limit might, without any intent, have out an excess of circulation.

A. When we get near our limit we are kept informed by telegraph.

Interview with H. V. Meredith, assistant general manager of the Bank of Montreal, and director of the Royal Trust Company.

By Mr. VREELAND:

Q. The trust company publishes a statement?

A. We prepare statements and furnish them to the governments of the various provinces, but we do not give them to the general public. We act under a provincial charter in the different provinces where we are located, and we have to give a statement to the government of each province, and in some of the provinces they are much more particular than in others. In some of them they ask us for a deposit as security for acting as trustees.

Q. Ask for a deposit with the provincial government?

A. Ask for a deposit with the provincial government.

Q. In cash?

A. In cash, yes; or securities.

Q. Do they invest it in any way so you get interest on it, or is that dead money?

A. In the province of New Brunswick they insisted on our buying provincial bonds and depositing them.

Q. So that you get interest on the bonds?

A. Yes.

Q. In the other provinces don't you get anything out of the deposits?

A. They take securities, on which we collect the interest.

Q. Does the Dominion government authorize and give charters for trust companies?

A. Yes; but we get local charters too, as Dominion charters are subject to provincial trust companies' acts.

Q. Do all the provinces give charters for the trust companies?

A. There is no reason why they should not. They have all got the power.

Q. That does not give you authority to act outside of the provinces?

A. No, that would be local. For this company we had originally a charter for the Province of Quebec, and when we entered the other provinces we had to get a charter from each of them or register under each of their provincial trust-companies acts. We do business in all the provinces.

Q. You have to get authority from each province to enable you to do business?

A. Yes.

Q. And you are required to make a deposit or give security you say?

A. We give a deposit, if asked for, as security for our acting as trustees, executors, committee, guardian to persons and to property. Some of the provinces do not exact security.

Q. You have an authorized capital in your charter?

A. Yes.

Q. You have the right to increase if from time to time if you wish?

A. Yes.

Q. How large a capital do you have?

A. Our capital now is $5,000,000 authorized, and $1,000,000 fully paid up.

Q. You do not receive deposits in the ordinary way?

A. We have authority but we do not receive them.

Q. You have authority to receive deposits?

A. Yes, most of the trust companies have that authority.

Q. Do you have authority to buy commercial paper?

A. No, that is forbidden; or bills of exchange.

Q. What is the line of investment that you are authorized to make?

A. We are not restricted as to investments. Anything that we like except commercial paper and bills of exchange generally.

Q. As a matter of fact, how do you invest your money?

A. We buy securities, largely bonds.

Q. Do you invest it ever in real-estate mortgages?

A. Yes; we have invested a considerable amount through our agencies in Winnipeg and the Northwest.

Q. Do you act as trustees and executors?

A. Yes.

Q. Administrators?

A. Yes.

Q. All of those trust functions?

A. Yes; that is how we make our money. We are unlike trust companies of the United States; as I understand it, they make their money out of deposits and the investment of them. In a majority of United States trust companies there is very little distinction between trust companies and banks, except trust companies have larger powers. The feeling is here to disassociate trust companies from banks altogether. We do not take any deposits from the public except for investment or something of that kind.

Q. The deposits that you take from the public for investment are payable how? That is, are they payable on demand or at some specified time?

A. We do not take demand deposits. The way this money comes to our hands is principally from estates, and the investments are the property of the estates, and the moneys are only repayable when the investments can be realized.

Mr. BONYNGE. Do you exercise your discretion in what securities you are to invest these trust funds, or are you directed by the party?

A. We follow the instructions contained in the will or other deeds governing the investment.

Mr. VREELAND. You receive a commission for such investments?

A. Yes.

By Mr. BONYNGE:

Q. Do you have an officer, a member of the trust company, who is a member of the exchange?

A. No; the trust company, as we understand it, and as we wish it to be, can not be a member of our stock exchange. Under our banking laws there are many transactions which a bank can not take up. If a business comes in that the Bank of Montreal could not take, we would turn it over to the trust company, and thereby we keep the connection that we might otherwise lose.

Q. Do you pay a larger rate of interest than the banks?

A. On deposits?

Q. Yes.

A. No; we allow bank rates on moneys in our hands awaiting investment. Our great idea is not to allow the trust companies in Canada to be banking concerns in any shape or form.

Q. Upon what other deposits do you pay interest excepting those that are left with you for investment?

A. That is all. It occasionally happens that companies which are accumulating funds for dividends would place them with us to invest, and in that case we make an arrangement by which we manage the investment for a certain percentage, and in that way they get more than 3 per cent, if it can be invested to yield more.

Q. Is the practice becoming to any extent general here by which men make wills appointing trust companies as executors?

A. Yes.

Q. And are they appointed as administrators by the courts to any extent?

A. Most people now appoint trust companies. They had a prejudice here under the French law, and for a good many years we could not get them to look at anything but private trustees; now they are appointing trust companies very largely. If they go to the court, the court will appoint a trust company. They will only appoint companies that they are satisfied are absolutely safe.

Q. The tendency is rather the same as in the States toward trust companies acting in fiduciary capacities?

A. Largely; yes.

Q. Trust companies being appointed?

A. Yes.

Q. Do you issue debentures?

A. No.

Mr. VREELAND. Do you engage in the bonding business at all, giving officers' fidelity guaranty bonds?

A. No; there are separate companies here for doing that business.

By Mr. HUBBELL:

Q. Do you guarantee any loans at all?

A. We are not very anxious to give guaranties. We rather restrict those. We have guaranteed mortgages up in the West for people that wanted the Royal Trust Company's guaranty. We do not guarantee more than 4 per cent as a rule. We might go 4½ per cent.

Q. You make the difference between the rate guaranteed and the rate at which the loan is made?

A. Yes.

Mr. VREELAND. How many regular trust companies are there in the city?

A. I think there are five now.

Mr. HUBBELL. Are you limited as to the amount of debentures that you may issue, or the amount of guaranties that you may perform?

A. We do not issue debentures, and there is no legal limit as to our guaranties.

By Mr. BONYNGE:

Q. Are you limited as to the amount of money that you may receive on deposit?

A. No; but we do not receive ordinary deposits.

Q. You differ in that respect from the mortgage companies?

A. Yes.

Q. Are you organized under a general law of the province, or is a special charter in each case furnished to a trust company?

A. There is a general law for trust companies. We have a special charter besides.

Q. There is a general law?

A. There is an act in all the provinces. They are proposing to enact a new one for the Province of Quebec. Trust companies get special charters from the legislatures in most cases.

By Mr. HUBBELL:

Q. You have a safe-deposit department in connection with the trust company?

A. We have in all our large offices; yes.

Q. You have branches?

A. Just the same as a bank. It is all managed from the central office here.

By Mr BONYNGE:

Q. How do you operate your safety-deposit boxes?—as we do in the United States, or do the depositors have to notify you what they put in their boxes?

A. No; the same as you have.

Q. Each depositor has full control over the situation?

A. We have a master key and the depositor has a key. Our master key does not open the box, but without it the depositor can not get in.

Q. And the depositor can put in such securities as he pleases without notifying you?

A. Yes.

Q. Without any notification?

A. Yes; we work just the same as you do in that respect.

Q. You do not assume any responsibility for the securities except the safe-keeping of whatever is in there?

A. No.

Q. If any of your own people were to extract anything from the box, you would certainly be legally liable for it?

A. I think we probably would, yes; although we generally disclaim that liability, but we do not have a key to enable us to get in.

Mr. HUBBELL. You have restrictions as to your stockholdings, don't you? They are not connected with the Bank of Montreal?

A. The connection with the Bank of Montreal is under a by-law of the company which provides that a majority of the directors of the trust company shall also be directors of the Bank of Montreal, if there are such persons qualified and willing to act.

Mr. VREELAND. Nearly the same people are in both?

A. Yes; but we have people outside on the board, as well as the bank directors.

Mr. HUBBELL. The stock transfers are controlled inherently by the trust company?

A. The stock transfers are controlled by us.

Mr. VREELAND. Do you know how many charters there are issued in the Province of Quebec for trust companies?

A. I think there are quite a number in the Province of Quebec.

By Mr. BONYNGE:

Q. Do you deposit in the Bank of Montreal, pending investment, money sent to you for investment?

A. Yes.

Q. You do not keep the cash that is deposited with you?

A. No; we keep all the bonds and the securities.

Q. I mean the funds.

A. They are deposited in the Bank of Montreal to our credit.

Mr. HUBBELL. Isn't each trust fund that is intrusted to you invested separately and accounted for?

A. Yes.

Mr. BONYNGE. And pending the investment of the funds you deposit them with the Bank of Montreal?

A. Yes.

By Mr. HUBBELL:

Q. Does the deposit of these funds go into a general account?

A. So far as the trust company is concerned they have a general account with the Bank of Montreal and a trust-fund account in which trust moneys are deposited.

Q. Supposing a man dies and $10,000 is deposited with the trust company. This is invested in specific securities?

A. Yes.

Q. And these securities are only used in the payment of that deposit?

A. Yes.

By Mr. BONYNGE:

Q. Are you limited at all by charter or by any law of the Province as to the character of securities in which you can invest trust funds?

A. There is a provincial law that covers that, and it is a very strict one. Principally government and municipal securities and mortgages in the Province of Quebec up to 60 per cent of the assessed valuation.

Q. And does the provincial law designate the particular railroad bonds, for instance, in which you can invest trust funds?

A. We could not invest trust funds in railroad bonds unless specifically authorized by the will or deed.

Mr. HUBBELL. You are subject to the same law that an individual trustee would be subjected to, so far as investing funds?

A. Yes; there are what we call trustees' investments here, the same as there are in England.

Mr. BONYNGE. And they are limited to government and municipal securities, real estate, and mortgages on real estate?

A. Yes.

By Mr. HUBBELL:

Q. Does the court have to approve that investment in any case?

A. If we are appointed by the court, do you mean?

Q. Yes.

A. As long as we stick to the act, that is sufficient. Moneys deposited in court have to be invested with the court's approval.

Mr. VREELAND. Do you know how many mortgage banks that loan on real estate and issue debentures you have here in the city?

A. We have very few. That is something that they have very largely in the Province of Ontario and some of the other provinces.

Mr. BONYNGE. You do not have any savings accounts in the trust company, do you?

A. No; loan companies do a large business in the Province of Ontario in that way. They take deposits largely there, and they also issue debentures and sell them, in Scotland chiefly, and invest the money in mortgages here.

By Mr. VREELAND:

Q. Their deposits are limited to the amount of their capital?

A. Their deposits to the amount of their capital?

Q. Yes. The president of quite a large concern there told us that the deposits they could receive were limited to the amount of their capital.

By Mr. HUBBELL:

Q. Do you have your board of directors or a special committee approve of the investment, or is that simply a matter that the manager has in charge?

A. We have an executive committee and they report.

Q. After the act?

A. Yes; after the act; we get the action of the executive committee confirmed at meetings of the board, at which all the business that is being done is reported.

Mr. BONYNGE. You do not do any underwriting for corporations, do you?

A. No; that is not our business. It would be the exception to do anything of that kind.

Mr. VREELAND. What would you think of the propriety of permitting banks like the Bank of Montreal to do trust-company business?

A. Well, I think it would be a very dangerous thing for any of the chartered banks to go into trust-company

business, and not to have their assets in liquid shape all the time.

By Mr. BONYNGE:

Q. If you segregated the trust funds and the savings funds from the commercial deposits and had a provincial law by which the trust funds were to be invested only in certain securities and the savings funds in certain other securities, and kept them absolutely distinct from your commercial deposits, wouldn't that overcome your objection, so that the depositors of the trust funds would look to the particular security in which their funds were invested and the commercial depositors would have no claim upon those securities?

A. Then how would you realize, in time of panic, on some of those securities?

Q. You wouldn't have to realize on the trust funds.

A. You mean the securities would be held specially for that business?

Q. Yes; the trust funds and the commercial department would be separate and distinct.

A. Yes; that could be done, but it would be a business distinct and separate from ordinary banking business, and it would be unusual in this country.

Q. It would be something new?

A. Yes; in Canada.

Q. But it would be feasible, would it not?

A. I think it would be feasible, but not desirable.

By Mr. VREELAND:

Q. Of course, that would carry with it a right to notice, the same as our savings banks. In our State they are obliged to invest along trustee lines.

A. Yes.

Q. They can invest in certain railroad bonds specified in the statutes. The savings banks of the State of New York have very little cash on hand.

A. Yes; we understand so.

Q. It is invested along the lines which the law requires, but of course that carries with it the right to demand notice if they wish it?

A. Yes; for savings deposits, we understand.

Q. So, in times of excitement they can demand thirty or sixty days' notice?

A. But would they demand notice?

Q. Ordinarily, they would not demand it.

A. No; that would be a reflection on their credit at once, if they demanded notice, wouldn't it?

Q. Except as they would be forced to do so as they were in 1907.

A. Canadian banks did not need to do this in 1907.

Q. In the State of New York the trustees of savings banks, as they can under the law, required notice of thirty or sixty days.

A. Yes.

Q. And tens of thousands of notices were given them by depositors saying at the expiration of that time they would withdraw their funds. At the expiration of that time more money was put in than was taken out.

A. Yes.

Q. Showing simply the excitement had passed.

A. Yes

THE BANQUE D'HOCHELAGA.

Statement of, November 30, 1908.

PROFIT AND LOSS ACCOUNT.

CREDIT.

Balance at credit profit and loss account, November 30, 1907	$20,477.00	
Net profits for the year ending November 30, 1908, after deducting costs of management, interest accrued on deposits, and provisions for bad and doubtful debts	381,387.02	
		$401,864.02

DEBIT.

Dividend paid March 1, 1908	50,000.00	
Dividend paid June 1, 1908	50,000.00	
Dividend paid September 1, 1908	50,000.00	
Dividend payable December 1, 1908	50,000.00	
Written off bank premises and fixtures	15,140.86	
Carried to officers' pension fund	5,000.00	
Carried to reserve fund	150,000.00	
Balance at credit profit and loss, November 30, 1908	31,723.16	
		401,864.02

RESERVE FUND.

Balance at credit November 30, 1907	$2,000,000.00	
Carried forward, November 30, 1908	150,000.00	
Balance at credit of reserve fund November 30, 1908		2,150,000.00

GENERAL STATEMENT.

LIABILITIES.

Capital stock paid up	$2,500,000.00	
Reserve fund	2,150,000.00	
Profit and loss	31,723.16	
Unclaimed dividends	1,203.65	
Dividend payable December 1, 1908	50,000.00	
		$4,732,926.81
Due to other banks in England and in foreign countries	71,055.44	
Notes in circulation	2,058,762.00	
Deposits not bearing interest	3,898,349.98	
Deposits bearing interest	9,048,989.64	
Outstanding drafts drawn by agencies on head office	139,019.01	
		15,216,176.07
		19,949,102.88

ASSETS.

Specie	289,924.94	
Dominion notes	1,495,239.00	
Notes and checks on other banks	1,525,567.44	
Due by other banks in Canada	193,624.39	
Due by other banks in England	52,635.82	
Due by other banks in foreign countries	1,117,361.46	
Consols, federal, and provincial governments, cities of New York and Montreal debentures	1,507,512.95	
Other Canadian debentures	18,475.00	
Call loans on bonds and stocks	595,761.62	
Deposit with Dominion government for security of circulation	102,996.00	
		6,899,098.62
Notes discounted and current	$12,702,338.87	
Overdue debts (loss provided for)	14,002.25	
Mortgages on properties sold by the bank	20,592.54	
Real estate	29,178.67	
Bank premises, office fixtures and other assets	283,891.93	
		$13,050,004.26
		19,949,102.88

M. J. A. PRENDERGAST, *General Manager.*

Interview with M. J. A. Prendergast, general manager of Banque d'Hochelaga.

By Mr. VREELAND:

Q. What is the capital of your bank?

A. $2,500,000.

Q. And your surplus?

A. $2,150,000.

Q. What year were you chartered? How long has your bank been in existence?

A. 1874.

Q. You came in under the Dominion law?

A. Yes.

Q. The act of 1871?

A. Yes.

Q. How many branches do you have?

A. We have 33 branches.

Q. How many branches do you have in the city?

A. You call the city, I suppose, the suburbs?

Q. Yes.

A. In Montreal we have 12.

Q. You are establishing branches now farther west—out in the grain fields?

A. The farthest we have is Edmundson.

Q. About the time of your last annual statement, as near as you can remember, what amount of cash reserve did you carry, or what per cent?

A. Are you speaking of actual cash?

Q. Yes; I mean actual cash.

A. That varies a great deal. So far as I remember, it would be a little over $1,100,000. We hold federal and

provincial debentures, and hold a block of the city of New York with our European correspondent, and against all these bonds we can check, either by cable or sight draft, or thirty or sixty days, by a special agreement with the bank. We consider these as part of the cash reserves. I do not include the million and some odd thousand dollars of actual cash.

Q. What is the policy of the bank as to the amount, the percentage of actual cash, which you find it necessary to carry, or think it prudent to carry—as much as 10 or 8 per cent?

A. A good deal more than that.

Q. To your deposits?

A. A good deal more than that.

Q. Of actual cash on hand?

A. Yes, sir; you wouldn't take the amount against which we could check as part of the cash reserves, would you?

Q. We should consider that a very near cash reserve, but not the actual cash in the safe?

A. No.

Q. And yet of almost one value, but we were dividing the account.

A. We always keep at least 20 per cent in actual cash.

Q. What amount in addition to that do you intend to carry?

A. As immediately available?

Q. With balances in New York and London?

A. Oh, couple of millions more, sir.

Q. What are your total deposits?

A. To-day they are, bearing and not bearing interest, about $13,000,000—between $13,000,000 and $14,000,000.

Q. That would bring your reserves of actual cash and cash immediately available up to something like 30 per cent?

A. A little over that.

Q. Do you try to keep as a secondary reserve any investments in government or other bonds and securities?

A. We keep about $1,500,000 in federals and provincials, British consols, and we hold a block of the city of New York bonds.

Q. And that is under an arrangement against which you can check?

A. And that is under an arrangement against which we can check.

Q. So cash is more available?

A. So cash is more available.

Q. Do you have your money on call?

A. No, sir; we hold on call little over $1,000,000 at the present time.

Q. What amount have you invested in real estate for your own premises—yourself and branches?

A. We have between $275,000 and $300,000 invested in our own premises.

Q. That is what you charge in your statement?

A. Yes, sir.

Q. Really you must have considerably more than that, I suppose, actual value, selling value?

A. We put it down at what it cost us.

Q. You follow the usual banking expression and charge off a portion of your real estate?

A. Invariably.

Q. As much as you can?

A. And not only that, but deposits through exchange we reduce at least 10 per cent per annum.

Q. Upon what proportion of your $13,000,000 of deposits do you pay interest?

A. About $11,000,000—between $10,000,000 and $11,000,000.

Q. Do you pay interest on current accounts subject to check?

A. Very seldom.

Q. Monthly balances?

A. They are the exception. That is so invariably for minimum monthly balances.

Q. What proportion of your $13,000,000 is upon time; that is, time notice required for withdrawal?

A. As I said just now, interest-bearing accounts amount to a very small sum.

Q. Then about all of your $11,000,000 would be subject to notice?

A. Yes, sir.

Q. To draw?

A. Yes, sir; but it is against our practice to enforce the notice.

Q. You can pay interest upon current accounts?

A. We invariably pay whenever they present, although we have a right to pay according to the contract with the depositors.

Q. It is a very valuable right in case of great excitement?

A. Or in case of need; yes, sir.

Q. About what time do you have a right to require upon these interest accounts, thirty days?

A. Yes, sir.

Q. Or longer?

A. Thirty days.

Q. You publish only one statement a year?

A. Only once a year; yes, sir.

By Mr. WEEKS:

Q. Do you cater for any particular class of business, except for business generally in Canada?

A. We do not cater for any special line of business. Our accounts are usually commercial. We are not big enough to go into large amounts for railways and things of that kind, railway constructions; we do not consider ourselves strong enough for that. We stick as much as possible to our commercial accounts.

Q. Is there any method in Canada of distributing loans? Does one bank take a very large loan and give a piece of it to some other bank?

A. We are not in the habit of doing so, and we were never asked by any other bank to do so.

Mr. KNIGHT. The banks are not allowed to divide accounts.

Q. What we call a participation loan. You know in the United States we are limited in the amount we can loan to any one concern?

A. Yes.

Q. For instance, a bank might be able to loan $400,000?

A. Yes.

Q. But it might be offered a loan of $1,000 000?

A. I see.

Q. It would take that and give other banks some portion of it.

A. That is a practice that is not adopted in this country, not to my knowledge anyhow. We have no limit. Prudence must dictate the limit to the bankers themselves.

By Mr. VREELAND:

Q. If you could have the banking laws made just to suit you, what changes would you make?

A. There is one change I would suggest. As you are aware, the federal government does not tax our capital. I had the pleasure of meeting the association of the State of New York some three and one-half years ago at Behoff, near Cleveland, and the statement that the federal government, from which we get our powers, does not tax our capital, was received with the greatest astonishment. But it is a fact. Yet the provincial government, which has nothing to do with our banking, taxes us briskly. It taxes us upon our capital, and we are taxed in Quebec and Ontario and other provinces on the same basis. I do not consider that just. I should like to have that matter handled by the federal government, which, I think, would proceed in a more rational way. The provincial tax might be dispensed with, except, perhaps, a specific tax. The question is—I have very often heard it argued—whether the provincial government has really a right to tax our capital; I doubt it very much.

We hold our powers from the federal government, and I think that government would be the best judge of the way the taxes are to be levied on our capital. The provinces might levy a special tax on us, and some do. That is, an additional tax to the specific tax.

Q. Are there any changes that you think could possibly be made that would improve matters?

A. The system seems to work very well, particularly as compared with other systems.

Q. Works pretty well, indeed, it would seem.

A. I should not like to suggest any change. Some other people, I suppose, are willing to do that, but this has not been thoroughly discussed by those who propose changes in the system. There have always been attempts to curtail our circulation privilege. We think it is absolutely necessary in a country of this kind to make it quite elastic.

Q. What would those who propose to curtail it substitute in the place of it?

A. Oh, well, their main object is to secure the public against the danger of holding valueless circulation, but that is a thing which, under our present system, is impossible. Not in one single instance has the 5 per cent fund been touched. I believe those who want to curtail our circulation have not a very clear view of the needs of the country. Our branch system, which may not be at all necessary across the border, is shown, I think, to be indispensable here for the opening up of the country, and it would be an impossibility for us to open all of these branches and keep them prosperous

to a certain extent if we had not that privilege of circulation.

Q. For you to open up the country?

A. Yes; the protection of the banks.

Q. All the banks seem to be hastening to organize branches in the country that is being opened up in the West.

A. Take the case of the Eastern Townships Bank. According to public opinion the Eastern Townships has opened up more country than any other bank.

Q. What portion of Canada?

A. The Townships?

Q. Yes.

A. From Sherbrooke east, right along your border.

Q. How has the bank opened it up; by putting in branches in the villages as they developed?

A. There have been dairy and railroad and mining points, the dairy industry and the grain industry. Thus parts of the country that were comparatively poor have been opened to the modern conditions that existed in other sections.

Q. You think the local branches assisted in promoting the wealth of these communities?

A. Certainly. It is the same thing out in the newer parts of the country.

Q. Unless you can tell us some other lines of improvement, I do not know that there is anything more we wish to ask you.

A. Of course, you know we take a certain pride in our banking system, and we think it works well for the country, and we generally desire to leave well enough alone. We do not assume it to be perfect.

QUESTIONS RELATING TO THE CURRENCY OF THE DOMINION OF CANADA.

Answers by office of Canadian Minister of Finance.

1. What is the total issue of Dominion notes at the present time?

September 30, 1909, $80,456,391:

Fractional notes	$546,037.25
Provincial notes	27,969.75
Dominion ones and twos	16,591,139.00
Dominion fours	145,145.00
Dominion large notes	5,108,600.00
Legal tender notes for banks	58,037,500.00
	80,456,391.00

2. Are Dominion notes redeemable in gold upon demand of holders?

Redeemable in specie on presentation at branch offices established or at banks with which arrangements are made for the redemption thereof. "Specie" practically means gold, as silver is legal tender to the amount of $10 only.

At the present time offices for the redemption of Dominion notes, known as the offices of the assistant receivers-general, are established at Montreal, Quebec; Toronto, Ontario; Winnipeg, Manitoba; Victoria, British Columbia; Halifax, Nova Scotia; St. John, New Brunswick; and Charlottetown, Prince Edwards Island.

3. Does Dominion law direct redemption of Dominion notes in gold or coin?

The act provides for redemption in "specie," which practically means gold. (See "An act respecting Dominion notes," section 2 (*a*) and section 4 (*2*); also "An act respecting the currency," section 10 (*3*).)

4. Could minister of finance redeem Dominion notes in silver at his discretion?

No; the act provides for redemption in "specie."

5. Is reserve carried against Dominion notes by Government?

Yes; to the extent hereinafter stated.

6. Is percentage of reserve fixed by law?

The minister of finance shall always hold as security for the redemption of Dominion notes up to and including $30,000,000, issued and outstanding at any one time, an amount equal to not less than 25 per cent of the amount of such notes in gold, or in gold and securities of Canada, the principal and interest of which are guaranteed by the Government of the United Kingdom. The amount so held in gold shall not be less than 15 per cent of the amount of such notes so issued and outstanding.

As security for the redemption of Dominion notes issued in excess of $30,000,000, the minister shall hold an amount in gold equal to such excess. (See "An act respecting Dominion notes," section 5.)

7. What reserve is carried?

The full reserve required by law. At present the amount held exceeds the requirements, as shown by the following:

Specie held by the receiver-general and the several assistant receivers-general		$62,759,800.95
Guaranteed sterling debentures (£400,000)		1,946,666.67
		64,706,467.62
Amount required:		
25 per cent on $30,000,000	$7,500,000.00	
100 per cent on issue in excess of $30,000,000	50,456,391.00	
Amount required for Dominion notes	57,956,391.00	

Amount required—Continued.

For reserve on deposits in savings banks, being 10 per cent on balance ($57,859,530.89) on September 30, 1909 (see "An act respecting savings banks," S. 47)	$5,785,953.08	
Total amount required for reserve for Dominion notes and savings banks		$63,742,344.08
Excess reserve held September 30, 1909		964,123.54

8. Where is reserve kept? That is, in possession of the government or is it deposited to the credit of the government with the banks?

In possession of the government.

9. In what denominations are Dominion notes printed or issued?

Twenty-five cents, $1, $2, $4, [a]$50, [a]$100, $500, $1,000, and special notes for use between banks only—$500, $1,000, and $5,000.

These special notes are negotiable between banks only.

10. What is the total amount of Dominion bonded indebtedness?

March 31, 1909, $282,580,028.65. (See Public accounts, Part I, page 5.)

11. Total amount of guaranty by Dominion of railroad and other bonds. (Please send any printed statistics showing government liabilities.)

Eight million seven hundred and forty-five thousand eight hundred and seventy-three pounds nineteen shillings nine pence.

[a]$97,750 in circulation; not issued now.

POST-OFFICE SAVINGS BANKS.

1. Authorized by law in what year?

In 1867. (31 Victoria, chapter 10, sections 62 to 75, both inclusive. "Post-office act.") Commenced operations April, 1868.

2. How many such banks or offices now established?

October 28, 1909, 1,128.

3. Rules for establishing the same?

Established under the authority of an act of Parliament (31 Victoria, chapter 10, sections 62–75) and under regulations approved by the governor in council.

4. Total deposits?

September 30, 1909, $43,616,850.

5. Rates of interest paid?

	Per cent.
1868	4
1889	3½
1897	3

6. Is money invested or treated as a current account by the Dominion?

As a current account. Forms part of consolidated revenue fund.

There is also a system of savings banks under the control of the minister of finance, known as "Dominion government savings banks." (See "An act respecting savings banks," part 2.)

Prior to Confederation (1867), a system of savings banks was in existence in the maritime provinces under the control of the provincial governments. These banks

were taken over by the Dominion in 1867 and since that time have been under the administration of the minister of finance.

At one time there were 50 agencies, but, as the agents die or resign, the system is gradually being transferred to the "post-office savings bank" system, and at the present time only 18 offices remain, situated as follows:

Nova Scotia	13
New Brunswick	2
Manitoba	1
British Columbia	1
Prince Edward Island	1

The balance on deposit on September 30, 1909, was $14,424,032.82 and the number of accounts 38,881.

CIRCULATION—LENGTH OF TIME OUTSTANDING.

A few years ago some experiments were made with marked notes with a view to ascertaining the relative value of the circulation afforded by different classes of accounts.

The average time for which the notes were outstanding in the cases to which the test was applied was as follows:

	Days.
Cheese buyers' accounts	63
Grain and milling accounts	36
Cheese factory accounts	34
Railway pay cheques	27
Loan company accounts	7

In the most favorable case the notes were outstanding for an average of sixty-six days. This was the circulation afforded by a cheese account. In grain and milling accounts the average varied from twenty-two to fifty days. The tests made at Winnipeg showed more favorable results than at any other point.

The experiment can not be regarded as by any means conclusive, for the tests made were entirely too brief, and they would have to be repeated several times before any reliable deductions could be made. Probably, however, they may be regarded as a fair indication of the comparative value of the circulation afforded by the different classes of accounts.

Number of branches of chartered banks in Canada as at December 31.

	1889.	1899.	1900.	1901.	1902.	1903.	1904.	1905.	1906.	1907.	1908.	August 31, 1909.
Ontario	231	321	336	349	420	491	549	701	845	929	918	943
Quebec	60	113	123	137	147	183	196	246	270	297	311	329
New Brunswick	32	34	34	35	41	47	49	50	54	55	58	66
Nova Scotia	47	74	85	89	101	99	101	100	106	104	104	105
Prince Edward Island	6	9	10	9	7	11	10	11	14	14	16	16
British Columbia	9	41	48	46	52	50	55	66	78	90	103	118
Manitoba	13	50	50	52	79	87	95	127	166	163	162	168
North West Territories	4	19	19	30	54	78	87	150	------	------	------	------
Alberta	------	------	------	------	------	------	------	------	92	100	108	138
Saskatchewan	------	------	------	------	------	------	------	------	117	131	144	183
Yukon	------	2	3	3	3	3	3	3	3	3	3	3
All Canada	402	663	708	750	904	1,049	1,145	1,454	1,745	1,886	1,927	2,069

Total note circulation of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899	36,916,579	37,525,337	38,409,227	37,369,887	37,012,914	39,097,708	40,270,100	41,446,399	46,682,028	49,586,236	47,819,600	45,999,751
1900	41,320,083	41,699,231	43,814,918	43,908,432	42,856,762	45,577,387	46,007,906	47,421,237	50,387,070	53,198,777	51,947,369	50,758,246
1901	45,025,306	45,905,942	47,611,967	47,066,701	46,148,234	49,119,479	48,947,978	51,352,109	56,027,407	57,954,739	57,741,566	54,372,788
1902	48,586,529	49,450,994	52,442,982	50,691,588	50,754,716	53,953,043	52,070,665	55,035,701	60,965,801	65,928,973	64,447,641	60,574,144
1903	55,040,987	55,746,498	58,283,484	55,877,647	56,949,119	58,865,845	57,563,665	60,414,740	63,741,370	70,480,611	67,425,586	62,549,407
1904	56,973,373	57,736,243	59,760,119	58,649,870	57,857,174	60,098,480	59,979,830	60,227,074	63,795,962	72,226,306	69,426,931	64,507,394
1905	58,021,075	58,828,919	58,721,173	59,941,648	58,136,070	61,587,560	61,277,593	62,497,433	69,831,259	76,800,863	72,592,541	69,081,574
1906	60,986,610	62,434,893	65,991,818	66,530,677	64,217,332	69,366,505	68,182,979	70,108,511	77,209,346	83,718,630	80,502,157	78,416,780
1907	68,219,747	70,547,759	76,346,013	72,840,909	70,741,113	75,510,402	72,942,781	76,562,811	76,455,000	84,289,983	84,462,899	77,504,198
1908	66,871,378	68,548,075	69,047,892	66,712,899	67,770,018	68,153,994	66,097,255	70,389,897	76,246,237	83,036,762	80,287,724	73,058,214
1909	65,819,667	67,348,359	68,708,458	67,266,664	68,593,229	70,170,491	71,006,005	71,847,552				

Total loans of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899	260,042,237	267,490,839	273,960,660	279,882,116	283,392,782	286,864,652	282,671,221	283,656,636	291,761,105	299,250,919	301,710,965	303,171,857
1900	303,048,526	305,051,066	311,721,983	314,779,971	315,505,302	318,734,435	344,799,142	348,186,673	355,171,588	361,176,281	364,576,149	362,004,795
1901	360,589,364	365,858,196	373,398,689	377,748,864	387,082,567	385,834,295	389,382,355	391,668,118	400,425,930	406,382,035	411,091,378	410,114,456
1902	403,993,959	404,527,331	416,969,358	419,949,116	415,862,157	425,112,365	426,783,333	435,990,892	447,113,092	454,436,082	459,126,156	448,089,202
1903	454,477,550	461,492,419	468,814,574	475,349,318	472,294,787	469,279,164	467,562,681	474,889,503	479,453,606	480,182,632	478,856,094	481,995,153
1904	481,682,958	491,279,275	505,540,173	506,244,850	508,838,254	509,782,999	508,738,073	521,547,621	521,514,685	518,307,433	523,941,111	504,981,574
1905	519,703,775	522,470,224	531,931,738	541,675,742	544,875,052	549,812,306	566,858,307	569,950,668	578,380,818	591,494,111	600,941,997	603,682,367
1906	614,943,121	618,059,362	628,575,906	639,303,392	639,095,211	647,385,172	650,423,738	667,719,356	676,909,906	687,321,320	701,005,084	706,837,087
1907	698,846,480	711,528,043	721,656,911	719,005,985	717,246,615	720,513,762	719,041,473	718,591,142	718,272,321	708,705,715	690,035,933	676,257,826
1908	668,447,045	661,938,028	673,394,226	668,432,604	664,007,499	665,534,420	658,319,725	658,580,941	658,809,256	671,614,541	686,519,091	694,432,123
1909	694,012,746	705,917,252	730,632,306	734,186,810	747,309,428	746,099,209	750,940,018	760,870,516				

Total deposits of Canadian chartered banks.

	January.	February.	March.	April.	May.	June.	July.	August.	September.	October.	November.	December.
1899	252,305,431	255,668,013	253,770,458	256,887,469	262,415,664	265,810,336	266,959,275	270,097,410	273,584,407	279,114,709	281,100,110	280,121,927
1900	278,941,668	275,786,180	273,294,901	276,751,831	284,777,347	287,508,529	303,795,985	305,779,132	311,704,192	315,448,338	320,788,382	321,825,923
1901	325,156,264	326,827,830	328,807,872	336,896,836	343,557,589	341,930,806	358,222,032	357,595,832	362,267,804	365,817,407	371,011,393	374,782,259
1902	371,334,135	370,426,646	369,173,330	378,013,473	379,440,246	389,579,979	394,863,330	396,848,577	404,731,765	403,375,691	409,734,128	416,928,209
1903	409,133,296	410,073,893	414,399,704	418,310,719	421,291,544	423,178,199	425,283,834	426,338,192	414,066,488	430,107,461	435,655,016	442,174,398
1904	439,860,460	444,354,145	454,143,667	448,358,215	463,133,013	468,702,447	427,207,336	475,341,008	485,108,474	487,774,815	499,121,673	504,889,683
1905	501,741,986	500,164,000	506,112,414	509,049,116	518,162,843	521,982,525	512,193,782	544,517,528	549,307,981	556,622,352	566,204,224	567,845,794
1906	578,750,564	579,597,518	579,995,002	583,510,187	591,400,334	598,667,880	609,752,739	621,054,856	620,174,528	640,178,528	666,987,000	669,517,537
1907	653,521,984	653,100,854	648,397,135	657,611,046	663,016,176	664,377,981	665,645,914	658,106,853	666,047,153	655,774,111	640,616,795	632,661,124
1908	625,785,953	616,718,070	629,732,826	630,056,636	629,510,766	645,566,796	658,116,686	672,839,936	678,845,095	682,464,058	707,998,304	722,769,156
1909	712,928,483	719,013,009	738,969,321	748,221,019	765,397,587	773,590,935	775,532,185	794,275,495				

Chartered banks in Canada which have gone into liquidation since 1867.

Bank.	Head office.	Date of commencement of liquidation.	Paid depositors.	Loss to note-holders.
			Per cent.	
Commercial of New Brunswick.	St. John, New Brunswick.	July, 1868	100	Nil.
Bank of Acadia	Liverpool, Nova Scotia.	April, 1873	(a)	(a)
Metropolitan [b]	Montreal, Quebec	October, 1876	100	Nil.
Mechanics	do	May, 1879	57½	Nil.
Consolidated [b]	do	August, 1879	100	Nil.
Liverpool	Liverpool, Nova Scotia.	October, 1879	(a)	(a)
Stadacona [b]	Quebec, Quebec	July, 1879	100	Nil.
Exchange	Montreal, Quebec	September, 1883	66⅔	Nil.
Maritime	St. John, New Brunswick.	March, 1887	10⅔	Nil.
Pictou [b]	Pictou, Nova Scotia	September, 1887	100	Nil.
London in Canada [b]	London, Ontario	August, 1887	100	Nil.
Central of Canada	Toronto, Ontario	November, 1887	99⅔	Nil.
Federal [b]	do	January, 1888	100	Nil.
Commercial of Manitoba.	Winnipeg, Manitoba	July, 1893	100	Nil.
Banque du Peuple	Montreal, Quebec	October, 1897	75¼	Nil.
Banque Ville Marie	do	July, 1899	17½	Nil.
Bank of Yarmouth	Yarmouth, Nova Scotia.	March, 1905	100	Nil.
Ontario Bank [b]	Toronto, Ontario	October, 1906	100	Nil.
Sovereign Bank of Canada. [b]	do	January, 1908	100	Nil.
Banque de St. Jean	St. Johns, Quebec	April, 1908	(c)	Nil.
Banque de St. Hyacinthe.	St. Hyacinthe, Quebec.	June, 1908	(c)	Nil.
Bank of Prince Edwards Island.	Charlottetown, Prince Edwards Island.	(c)	(c)	(c)

[a] No information.

[b] Voluntary liquidation.

[c] Local; no returns; final dividend, April 28, 1887.

Prior to 1891 the loss to note-holders is on the assumption that all notes were presented before the final winding up. Any outstanding would then become worthless.

The Ontario Bank, Sovereign Bank of Canada, Banque de St. Jean, and Banque de St. Hyacinthe are at present in liquidation.

The deposits of the Ontario Bank were guaranteed by the Bank of Montreal.

The deposits of the Sovereign Bank of Canada were guaranteed by several banks—Montreal, Canadian Bank of Commerce, Royal Bank of Canada, Bank of Ottawa, Bank of Nova Scotia, Bank of British North America, and others.